



FORM 10-Q

CHESAPEAKE ENERGY CORP - CHK

Filed: May 11, 2009 (period: March 31, 2009)

Quarterly report which provides a continuing view of a company's financial position

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2009

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 1-13726

Chesapeake Energy Corporation
(Exact name of registrant as specified in its charter)

Oklahoma
(State or other jurisdiction of
incorporation or organization)

73-1395733
(I.R.S. Employer
Identification No.)

6100 North Western Avenue
Oklahoma City, Oklahoma
(Address of principal executive offices)

73118
(Zip Code)

(405) 848-8000
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 7, 2009, there were 626,171,207 shares of our \$0.01 par value common stock outstanding.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u> <u>(Adjusted)</u>
	(\$ in millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 83	\$ 1,749
Accounts receivable	1,185	1,324
Short-term derivative instruments	1,446	1,082
Other	139	137
Total Current Assets	<u>2,853</u>	<u>4,292</u>
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, at cost based on full-cost accounting:		
Evaluated natural gas and oil properties	32,861	28,965
Unevaluated properties	9,542	11,379
Less: accumulated depreciation, depletion and amortization of natural gas and oil properties	<u>(21,909)</u>	<u>(11,866)</u>
Total natural gas and oil properties, at cost based on full-cost accounting	<u>20,494</u>	<u>28,478</u>
Other property and equipment:		
Natural gas gathering systems and treating plants	3,129	2,717
Buildings and land	1,582	1,513
Drilling rigs and equipment	516	430
Natural gas compressors	191	184
Other	499	482
Less: accumulated depreciation and amortization of other property and equipment	<u>(555)</u>	<u>(496)</u>
Total Other Property and Equipment	<u>5,362</u>	<u>4,830</u>
Total Property and Equipment	<u>25,856</u>	<u>33,308</u>
OTHER ASSETS:		
Investments	378	444
Long-term derivative instruments	275	261
Other assets	299	288
Total Other Assets	<u>952</u>	<u>993</u>
TOTAL ASSETS	<u>\$ 29,661</u>	<u>\$ 38,593</u>

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS — (Continued)
(Unaudited)

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u> <u>(Adjusted)</u>
(\$ in millions)		
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,424	\$ 1,611
Short-term derivative instruments	107	66
Accrued liabilities	826	880
Deferred income taxes	491	358
Income taxes payable	16	108
Revenues and royalties due others	343	431
Accrued interest	155	167
Total Current Liabilities	<u>3,362</u>	<u>3,621</u>
LONG-TERM LIABILITIES:		
Long-term debt, net	12,933	13,175
Deferred income tax liabilities	800	4,200
Asset retirement obligations	275	269
Long-term derivative instruments	271	111
Revenues and royalties due others	54	49
Other liabilities	148	151
Total Long-Term Liabilities	<u>14,481</u>	<u>17,955</u>
CONTINGENCIES AND COMMITMENTS (Note 3)		
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$0.01 par value, 20,000,000 shares authorized:		
4.50% cumulative convertible preferred stock, 2,558,900 shares issued and outstanding as of March 31, 2009 and December 31, 2008, entitled in liquidation to \$256 million	256	256
5.00% cumulative convertible preferred stock (series 2005B), 2,095,615 shares issued and outstanding as of March 31, 2009 and December 31, 2008, entitled in liquidation to \$209 million	209	209
6.25% mandatory convertible preferred stock, 143,768 shares issued and outstanding as of March 31, 2009 and December 31, 2008, entitled in liquidation to \$36 million	36	36
4.125% cumulative convertible preferred stock, 0 and 3,033 shares issued and outstanding as of March 31, 2009 and December 31, 2008, respectively, entitled in liquidation to \$0 and \$3 million	—	3
5.00% cumulative convertible preferred stock (series 2005), 5,000 shares issued and outstanding as of March 31, 2009 and December 31, 2008, entitled in liquidation to \$1 million	1	1
Common Stock, \$0.01 par value, 750,000,000 shares authorized, 625,455,108 and 607,953,437 shares issued at March 31, 2009 and December 31, 2008, respectively	6	6
Paid-in capital	11,910	11,680
Retained earnings (deficit)	(1,171)	4,569
Accumulated other comprehensive income (loss), net of tax of (\$355) million and (\$163) million, respectively	582	267
Less: treasury stock, at cost; 719,546 and 657,276 common shares as of March 31, 2009 and December 31, 2008, respectively	(11)	(10)
Total Stockholders' Equity	<u>11,818</u>	<u>17,017</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 29,661	\$ 38,593

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2009	2008 (Adjusted)
	(\$ in millions except per share data)	
REVENUES:		
Natural gas and oil sales	\$ 1,397	\$ 773
Natural gas and oil marketing sales	552	796
Service operations revenue	46	42
Total Revenues	<u>1,995</u>	<u>1,611</u>
OPERATING COSTS:		
Production expenses	238	201
Production taxes	23	75
General and administrative expenses	90	79
Natural gas and oil marketing expenses	523	774
Service operations expense	40	35
Natural gas and oil depreciation, depletion and amortization	447	515
Depreciation and amortization of other assets	57	36
Impairment of natural gas and oil properties and other assets	9,630	—
Total Operating Costs	<u>11,048</u>	<u>1,715</u>
INCOME (LOSS) FROM OPERATIONS	<u>(9,053)</u>	<u>(104)</u>
OTHER INCOME (EXPENSE):		
Other income (expense)	8	(9)
Interest expense	14	(99)
Impairment of investments	(153)	—
Total Other Income (Expense)	<u>(131)</u>	<u>(108)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(9,184)</u>	<u>(212)</u>
INCOME TAX EXPENSE (BENEFIT):		
Current	—	—
Deferred	(3,444)	(82)
Total Income Tax Expense (Benefit)	<u>(3,444)</u>	<u>(82)</u>
NET INCOME (LOSS)	<u>(5,740)</u>	<u>(130)</u>
PREFERRED STOCK DIVIDENDS	<u>(6)</u>	<u>(12)</u>
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ (5,746)</u>	<u>\$ (142)</u>
EARNINGS (LOSS) PER COMMON SHARE:		
Basic	\$ (9.63)	\$ (0.29)
Assuming dilution	\$ (9.63)	\$ (0.29)
CASH DIVIDEND DECLARED PER COMMON SHARE	\$ 0.075	\$ 0.0675
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):		
Basic	597	493
Assuming dilution	597	493

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2009	2008 (Adjusted)
	(\$ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	\$ (5,740)	\$ (130)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	504	551
Deferred income taxes	(3,444)	(82)
Unrealized (gains) losses on derivatives	(145)	1,145
Realized (gains) losses on financing derivatives	(19)	(12)
Stock-based compensation	34	29
Loss from equity investments	1	—
Impairments	9,783	—
Other	25	31
Change in assets and liabilities	262	(17)
Cash provided by operating activities	<u>1,261</u>	<u>1,515</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development of natural gas and oil properties	(1,347)	(1,406)
Acquisitions of natural gas and oil companies, proved and unproved properties and leasehold, net of cash acquired	(413)	(1,021)
Divestitures of proved and unproved properties and leasehold	—	243
Additions to other property and equipment	(667)	(551)
Additions to investments	(8)	(9)
Proceeds from sale of drilling rigs and equipment	—	34
Proceeds from sale of compressors	68	17
Sale of other assets	—	1
Cash used in investing activities	<u>(2,367)</u>	<u>(2,692)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facility borrowings	1,575	2,591
Payments on credit facility borrowings	(3,120)	(1,377)
Proceeds from issuance of senior notes, net of offering costs	1,346	—
Cash paid for common stock dividends	(44)	(33)
Cash paid for preferred stock dividends	(6)	(12)
Derivative settlements	1	(33)
Net increase (decrease) in outstanding payments in excess of cash balance	(287)	44
Excess tax benefit from stock-based compensation	—	11
Cash paid for repurchase of treasury stock	(1)	—
Cash received from exercise of stock options	1	4
Other financing costs	(25)	(18)
Cash provided by (used in) financing activities	<u>(560)</u>	<u>1,177</u>
Net increase (decrease) in cash and cash equivalents	(1,666)	—
Cash and cash equivalents, beginning of period	1,749	1
Cash and cash equivalents, end of period	<u>\$ 83</u>	<u>\$ 1</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(Unaudited)

	Three Months Ended March 31,	
	2009	2008 (Adjusted)
(\$ in millions)		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION OF CASH PAYMENTS FOR:		
Interest, net of capitalized interest	\$ 25	\$ 114
Income taxes, net of refunds received	\$ 114	\$ 4

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

As of March 31, 2009 and 2008, dividends payable on our common and preferred stock were \$51 million and \$53 million, respectively.

For the three months ended March 31, 2009 and 2008, natural gas and oil properties were adjusted by a nominal amount and \$13 million, respectively, for net income tax liabilities related to acquisitions.

For the three months ended March 31, 2009 and 2008, natural gas and oil properties were adjusted by (\$62) million and (\$6) million, respectively, as a result of an increase (decrease) in accrued exploration and development costs.

For the three months ended March 31, 2009 and 2008, other property and equipment were adjusted by \$13 million and \$8 million, respectively, as a result of an increase (decrease) in accrued costs.

We recorded non-cash asset additions to natural gas and oil properties of \$2 million and \$3 million for the three months ended March 31, 2009 and 2008, respectively, for asset retirement obligations.

On March 31, 2009, we converted all of our outstanding 4.125% cumulative convertible preferred stock (3,033 shares) into 182,887 shares of common stock at a conversion price of \$16.584 per share.

For the three months ended March 31, 2009, we issued 14,360,642 shares of common stock, valued at \$240 million, for the purchase of leasehold and unproved properties pursuant to an acquisition shelf registration statement.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended March 31,	
	2009	2008 (Adjusted)
(\$ in millions)		
PREFERRED STOCK:		
Balance, beginning of period	\$ 505	\$ 960
Exchange of common stock for 3,033 and 0 shares of 4.125% preferred stock	(3)	—
Balance, end of period	<u>502</u>	<u>960</u>
COMMON STOCK:		
Balance, beginning of period	6	5
Exchange of 182,887 and 0 shares of common stock for preferred stock	—	—
Balance, end of period	<u>6</u>	<u>5</u>
PAID-IN CAPITAL:		
Balance, beginning of period	11,680	7,532
Issuance of common stock for the purchase of leasehold and unproved properties	232	—
Stock-based compensation	53	34
Exercise of stock options	1	4
Dividends on common stock	(45)	—
Dividends on preferred stock	(6)	—
Exchange of 182,887 and 0 shares of common stock for preferred stock	3	—
Tax benefit (reduction in tax benefit) from exercise of stock options and restricted stock	(8)	11
Balance, end of period	<u>11,910</u>	<u>7,581</u>
RETAINED EARNINGS (DEFICIT):		
Balance, beginning of period	4,569	4,144
Net income (loss)	(5,740)	(130)
Dividends on common stock	—	(33)
Dividends on preferred stock	—	(12)
Balance, end of period	<u>(1,171)</u>	<u>3,969</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Balance, beginning of period	267	(11)
Hedging activity	266	(533)
Marketable securities activity	49	1
Balance, end of period	<u>582</u>	<u>(543)</u>
TREASURY STOCK – COMMON:		
Balance, beginning of period	(10)	(6)
Purchase of 64,242 shares for company benefit plans	(1)	—
Release of 1,972 and 1,098 shares for company benefit plans	—	—
Balance, end of period	<u>(11)</u>	<u>(6)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 11,818</u>	<u>\$ 11,966</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended	
	March 31,	
	2009	2008
	(Adjusted)	
	(\$ in millions)	
Net income (loss)	\$ (5,740)	\$ (130)
Other comprehensive income (loss), net of income tax:		
Change in fair value of derivative instruments, net of income taxes of \$296 million and (\$303) million	484	(492)
Reclassification of (gain) loss on settled contracts, net of income taxes of (\$112) million and (\$51) million	(184)	(82)
Ineffective portion of derivatives qualifying for cash flow hedge accounting, net of income taxes of (\$21) million and \$25 million	(34)	41
Unrealized (gain) loss on marketable securities, net of income taxes of \$4 million and \$1 million	6	1
Reclassification of loss on marketable securities, net of income taxes of \$26 million and \$0	43	—
Comprehensive income (loss)	<u>\$ (5,425)</u>	<u>\$ (662)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Chesapeake Energy Corporation and its subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission. Chesapeake's annual report on Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K") includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Form 10-Q. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results for the interim periods have been reflected. The results for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year. This Form 10-Q relates to the three months ended March 31, 2009 (the "Current Quarter") and the three months ended March 31, 2008 (the "Prior Quarter").

Change in Accounting Principle

On January 1, 2009, we adopted and applied retrospectively FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion*. As a result, our prior year condensed consolidated financial statements have been retrospectively adjusted. See Note 6 for additional information on the application of this accounting principle.

Natural Gas and Oil Properties – Ceiling Test

We review the carrying value of our natural gas and oil properties under the full-cost accounting rules of the Securities and Exchange Commission on a quarterly basis. This quarterly review is referred to as a ceiling test. Under the ceiling test, capitalized costs, less accumulated amortization and related deferred income taxes, may not exceed an amount equal to the sum of the present value of estimated future net revenues (adjusted for cash flow hedges) less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. As of March 31, 2009, capitalized costs of natural gas and oil properties exceeded the estimated present value of future net revenues from our proved reserves, net of related income tax considerations, resulting in a write-down in the carrying value of natural gas and oil properties of \$9.6 billion. In calculating future net revenues, current prices and costs used are those as of the end of the appropriate quarterly period. Such prices are utilized except where different prices are fixed and determinable from applicable contracts for the remaining term of those contracts, including the effects of derivatives qualifying as cash flow hedges. Based on spot prices for natural gas and oil as of March 31, 2009, these cash flow hedges increased the full-cost ceiling by \$1.651 billion, thereby reducing the ceiling test write-down by the same amount. Our qualifying cash flow hedges as of March 31, 2009, which consisted of swaps and collars, covered 292 bcfe, 78 bcfe and 11 bcfe in 2009, 2010 and 2011, respectively. Our natural gas and oil hedging activities are discussed in Note 2 of these condensed consolidated financial statements. Further decreases in market prices from March 31, 2009 levels, as well as changes in production rates, levels of reserves, the evaluation of costs excluded from amortization, future development costs and service costs could result in future ceiling test impairments.

Critical Accounting Policies

We consider accounting policies related to hedging, natural gas and oil properties, income taxes and business combinations to be critical policies. These policies are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Form 10-K.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

2. Financial Instruments and Hedging Activities

Natural Gas and Oil Hedging Activities

Our results of operations and operating cash flows are impacted by changes in market prices for natural gas and oil. To mitigate a portion of the exposure to adverse market changes, we have entered into various derivative instruments. These instruments allow us to predict with greater certainty the effective natural gas and oil prices to be received for our hedged production. Although derivatives often fail to achieve 100% effectiveness for accounting purposes, we believe our derivative instruments continue to be highly effective in achieving the risk management objectives for which they were intended. As of March 31, 2009, our natural gas and oil derivative instruments were comprised of the following:

- For swap instruments, Chesapeake receives a fixed price for the hedged commodity and pays a floating market price to the counterparty.
- Collars contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, Chesapeake receives the fixed price and pays the market price. If the market price is between the call and the put strike price, no payments are due from either party.
- For knockout swaps, Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for the possibility to reduce the counterparty's exposure to zero, in any given month, if the floating market price is lower than certain pre-determined knockout prices.
- For cap-swaps, Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for a "cap" limiting the counterparty's exposure. In other words, there is no limit to Chesapeake's exposure but there is a limit to the downside exposure of the counterparty.
- For call options, Chesapeake receives a premium from the counterparty in exchange for the sale of a call option. If the market price exceeds the fixed price of the call option, Chesapeake pays the counterparty such excess. If the market price settles below the fixed price of the call option, no payment is due from Chesapeake.
- For put options, Chesapeake receives a premium from the counterparty in exchange for the sale of a put option. If the market price falls below the fixed price of the put option, Chesapeake pays the counterparty such shortfall. If the market price settles above the fixed price of the put option, no payment is due from Chesapeake.
- Basis protection swaps are arrangements that guarantee a price differential to NYMEX for natural gas or oil from a specified delivery point. For Mid-Continent basis protection swaps, which typically have negative differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract. For Appalachian Basin basis protection swaps, which typically have positive differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is less than the stated terms of the contract and pays the counterparty if the price differential is greater than the stated terms of the contract.

All of our derivative instruments are net settled based on the difference between the fixed-price payment and the floating-price payment, resulting in a net amount due to or from the counterparty.

Chesapeake enters into counter-swaps from time to time for the purpose of locking-in the value of a swap. Under the counter-swap, Chesapeake receives a floating price for the hedged commodity and pays a fixed price to the counterparty. The counter-swap is 100% effective in locking-in the value of a swap since subsequent changes in the market value of the swap are entirely offset by subsequent changes in the market value of the counter-swap. We refer to this locked-in value as a locked swap. Generally, at the time Chesapeake enters into a counter-swap, Chesapeake removes the original swap's designation as a cash flow hedge and classifies the original swap as a non-qualifying hedge under SFAS 133. The reason for this new designation is that collectively the swap and the counter-swap no longer hedge the exposure to variability in expected future cash flows. Instead, the swap and counter-swap effectively lock-in a specific gain or loss that will be unaffected by subsequent variability in natural gas and oil prices. Any locked-in gain or loss is recorded in accumulated other comprehensive income and reclassified to natural gas and oil sales in the month of related production.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Gains or losses from certain derivative transactions are reflected as adjustments to natural gas and oil sales on the condensed consolidated statements of operations. Realized gains (losses) are included in natural gas and oil sales in the month of related production. Pursuant to SFAS 133, certain derivatives do not qualify for designation as cash flow hedges. Changes in the fair value of these non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the condensed consolidated statements of operations as unrealized gains (losses) within natural gas and oil sales. Following provisions of SFAS 133, changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributable to the hedged risk, are recorded in other comprehensive income until the hedged item is recognized in earnings. Any change in fair value resulting from ineffectiveness is currently recognized in natural gas and oil sales as unrealized gains (losses). The components of natural gas and oil sales for the Current Quarter and the Prior Quarter are presented below.

	Three Months Ended	
	March 31,	
	2009	2008
	(\$ in millions)	
Natural gas and oil sales	\$ 778	\$ 1,690
Realized gains (losses) on natural gas and oil derivatives	519	215
Unrealized gains (losses) on non-qualifying natural gas and oil derivatives	46	(1,067)
Unrealized gains (losses) on ineffectiveness of cash flow hedges	54	(65)
Total natural gas and oil sales	\$ 1,397	\$ 773

The estimated fair values of our natural gas and oil derivative instruments as of March 31, 2009 and December 31, 2008 are provided below. The associated carrying values of these instruments are equal to the estimated fair values.

	March 31,	December 31,
	2009	2008
	(\$ in millions)	
Derivative assets (liabilities) ^(a) :		
Fixed-price natural gas swaps	\$ 905	\$ 863
Fixed-price natural gas collars	789	402
Fixed-price natural gas knockout swaps	40	141
Natural gas call options	(178)	(178)
Natural gas put options	(79)	(39)
Natural gas basis protection swaps	(29)	93
Fixed-price oil swaps	13	31
Fixed-price oil knockout swaps	42	19
Fixed-price oil cap-swaps	2	3
Oil call options	(24)	(35)
Fixed-price oil collars	—	5
Estimated fair value	\$ 1,481	\$ 1,305

- (a) After adjusting for \$558 million and \$736 million of unrealized premiums, the value to be realized for these derivatives as of March 31, 2009 and December 31, 2008 was \$2.039 billion and \$2.041 billion, respectively.

The fair values shown above have the following associated volumes as of March 31, 2009 and December 31, 2008:

	March 31,	December 31,
	2009	2008
Natural Gas and Oil Volume Hedged:		
<u>Natural Gas (bbtu)</u>		
Fixed-price natural gas swaps	328,175	466,800
Fixed-price natural gas collars	384,265	457,715
Fixed-price natural gas knockout swaps	98,670	532,660
Natural gas call options	609,470	551,555
Natural gas put options	64,000	73,000
Natural gas basis protection swaps	188,764	219,487
Total gas volume	1,673,344	2,301,217
<u>Oil (mmbbls)</u>		
Fixed-price oil swaps	(369)	(310)
Fixed-price oil knockout swaps	9,512	12,248
Fixed-price oil cap-swaps	182	362
Oil call options	18,095	19,355
Fixed-price oil collars	—	730
Total oil volume	27,420	32,385

To mitigate our exposure to the fluctuation in prices of diesel fuel, we have entered into diesel swaps from April 2009 to March 2010 for a total of 41,475,000 gallons with an average fixed price of \$1.60 per gallon. The fair value of these swaps as of March 31, 2009 was a liability of \$3 million.

We have six secured hedging facilities, each of which permits us to enter into cash-settled natural gas and oil commodity transactions, valued by the counterparty, for up to a stated maximum value. Outstanding transactions under each facility are collateralized by certain of our natural gas and oil properties that do not secure any of our other obligations. The value of reserve collateral pledged to each facility is required to be at least 1.3 or 1.5 times the fair value of transactions outstanding under each facility. In addition, we may pledge collateral from our revolving bank credit facility, from time to time, to these facilities to meet any additional collateral coverage requirements. The hedging facilities are subject to a per annum exposure fee, which is assessed quarterly based on the average of the daily negative fair value amounts of the hedges, if any, during the quarter. The hedging facilities

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contain the standard representations and default provisions that are typical of such agreements. The agreements also contain various restrictive provisions which govern the aggregate natural gas and oil production volumes that we are permitted to hedge under all of our agreements at any one time. The fair value of outstanding transactions, per annum exposure fees and the scheduled maturity dates are shown below.

	Secured Hedging Facilities ^(a)					
	#1	#2	#3	#4	#5	#6
	(\$ in millions)					
Fair value of outstanding transactions, as of March 31, 2009	\$ 165	\$ 584	\$ 76	\$ (3)	\$ 98	\$ 136
Per annum exposure fee	1%	1%	0.8%	0.8%	0.8%	0.8%
Scheduled maturity date	2010	2013	2020	2012	2012	2012

(a) Chesapeake Exploration, L.L.C. is the named party to the facilities numbered 1 – 3 and Chesapeake Energy Corporation is the named party to the facilities numbered 4 – 6.

Interest Rate Derivatives

We use interest rate derivatives to mitigate our exposure to volatility in interest rates related to our senior notes and credit facility. For interest rate derivative instruments designated as fair value hedges (in accordance with SFAS 133), changes in fair value are recorded on the condensed consolidated balance sheets as assets (liabilities), and the debt's carrying value amount is adjusted by the change in the fair value of the debt subsequent to the initiation of the derivative. Changes in the fair value of non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the condensed consolidated statements of operations as unrealized gains (losses) within interest expense.

Gains or losses from certain derivative transactions are reflected as adjustments to interest expense on the condensed consolidated statements of operations. Realized gains (losses) included in interest expense were \$7 million and a nominal amount in the Current Quarter and the Prior Quarter, respectively. Unrealized gains (losses) included in interest expense were \$45 million and (\$13) million in the Current Quarter and the Prior Quarter, respectively.

As of March 31, 2009, the following interest rate derivatives were outstanding:

	Notional Amount (\$ in millions)	Weighted Average Fixed Rate	Weighted Average Floating Rate ^(b)	Fair Value Hedge	Net Premiums (\$ in millions)	Fair Value (\$ in millions)
Fixed to Floating Interest Rate:						
Swaps						
January 2008 – November 2020	\$ 500	6.875%	6 mL plus 230 bp	Yes	\$ —	\$ 66
April 2008 – August 2015	\$ 250	6.50%	6 mL plus 240 bp	No	\$ —	\$ 20
Call Options						
May 2009 – August 2009	\$ 750	6.75%	6 mL plus 233 bp	No	\$ 9	\$ (77)
Floating to Fixed Interest Rate:						
Swaps						
August 2007 – July 2012	\$ 1,375	4.20%	1 - 6 mL	No	\$ —	\$ (47)
Collars ^(a)						
August 2007 – August 2010	\$ 250	4.52%	6 mL	No	\$ —	\$ (10)
Swaption						
August 2009	\$ 500	2.56%	1 mL	No	\$ 5	\$ (12)
					<u>\$ 14</u>	<u>\$ (60)</u>

(a) The collars have ceiling and floor fixed interest rates of 5.37% and 4.52%, respectively.

(b) Month LIBOR has been abbreviated "mL" and basis points has been abbreviated "bp".

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In the Current Quarter, we closed interest rate derivatives for gains totaling \$12 million of which \$7 million was recognized in interest expense. The remaining \$5 million was from interest rate derivatives designated as fair value hedges and the settlement amounts received will be amortized as a reduction to interest expense over the remaining term of the related senior notes ranging from eight to nine years.

Foreign Currency Derivatives

On December 6, 2006, we issued €600 million of 6.25% Euro-denominated Senior Notes due 2017. Concurrent with the issuance of the euro-denominated senior notes, we entered into a cross currency swap to mitigate our exposure to fluctuations in the euro relative to the dollar over the term of the notes. Under the terms of the cross currency swap, on each semi-annual interest payment date, the counterparties pay Chesapeake €19 million and Chesapeake pays the counterparties \$30 million, which yields an annual dollar-equivalent interest rate of 7.491%. Upon maturity of the notes, the counterparties will pay Chesapeake €600 million and Chesapeake will pay the counterparties \$800 million. The terms of the cross currency swap were based on the dollar/euro exchange rate on the issuance date of \$1.3325 to €1.00. Through the cross currency swap, we have eliminated any potential variability in Chesapeake's expected cash flows related to changes in foreign exchange rates and therefore the swap qualifies as a cash flow hedge under SFAS 133. The euro-denominated debt is recorded in notes payable (\$796 million at March 31, 2009) using an exchange rate of \$1.3261 to €1.00. The fair value of the cross currency swap is recorded on the condensed consolidated balance sheet as a liability of \$74 million at March 31, 2009.

Disclosures About Derivative Instruments and Hedging Activities

In accordance with FASB Interpretation No. 39, to the extent that a legal right of set-off exists, Chesapeake nets the value of its derivative arrangements with the same counterparty in the accompanying condensed consolidated balance sheets. The following table sets forth the fair value of each classification of derivative instrument as of March 31, 2009:

	March 31, 2009	
	Balance Sheet Location	Fair Value (\$ in millions)
ASSET DERIVATIVES:		
Derivatives designated as hedging instruments under SFAS 133:		
Interest rate contracts	Long-term derivative instruments	\$ 66
Commodity contracts	Short-term derivative instruments	958
Commodity contracts	Long-term derivative instruments	138
Total		\$ 1,162
Derivatives not designated as hedging instruments under SFAS 133:		
Interest rate contracts	Long-term derivative instruments	\$ 20
Commodity contracts	Short-term derivative instruments	658
Commodity contracts	Long-term derivative instruments	138
Total		\$ 816
LIABILITY DERIVATIVES:		
Derivatives designated as hedging instruments under SFAS 133:		
Foreign exchange contracts	Long-term derivative instruments	74
Commodity contracts	Short-term derivative instruments	8
Total		\$ 82
Derivatives not designated as hedging instruments under SFAS 133:		
Interest rate contracts	Short-term derivative instruments	\$ 96
Interest rate contracts	Long-term derivative instruments	50
Commodity contracts	Short-term derivative instruments	173
Commodity contracts	Long-term derivative instruments	234
Total		\$ 553

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A consolidated summary of the effect of derivative instruments on the condensed consolidated statement of operations for the three months ended March 31, 2009 is provided below, separating fair value, cash flow and non-qualifying hedges (as defined by SFAS 133).

The following table presents the gain (loss) recognized in net income (loss) for instruments designated as fair value hedges:

<u>Fair Value Derivatives</u>	<u>Location of Gain (Loss)</u>	<u>Gain (Loss)</u> <u>(\$ in millions)</u>
Interest rate contracts	Interest expense ^(a)	\$ 8

The following table presents the pre-tax gain (loss) recognized in, and reclassified from, accumulated other comprehensive income (AOCI) and recognized in net income (loss), including any hedge ineffectiveness, for derivative instruments classified as cash flow hedges:

<u>Cash Flow Derivatives</u>	<u>Gain (Loss)</u> <u>Recognized in</u> <u>AOCI</u> <u>(Effective Portion)</u>	<u>Location of Gain</u> <u>(Loss) Reclassified</u> <u>from AOCI</u> <u>(Effective Portion)</u>	<u>Gain (Loss)</u> <u>Reclassified from</u> <u>AOCI (Effective</u> <u>Portion)</u>	<u>Location of Gain</u> <u>(Loss) Recognized</u> <u>(Ineffective</u> <u>Portion)</u>	<u>Gain (Loss)</u> <u>Recognized</u> <u>(Ineffective</u> <u>Portion) (b)</u>
Commodity contracts	\$ 682	Natural gas and oil sales	\$ 296	Natural gas and oil sales	\$ 54
Foreign exchange contracts	43	Other income	—	Other income	—
Total	<u>\$ 725</u>		<u>\$ 296</u>		<u>\$ 54</u>

Based upon the market prices at March 31, 2009, we expect to transfer approximately \$640 million (net of income taxes) of the gain included in the balance in accumulated other comprehensive income to net income (loss) during the next 12 months in the related month of production. All transactions hedged as of March 31, 2009 are expected to mature by December 31, 2022.

The following table presents the gain (loss) recognized in net income (loss) for derivatives not designated under SFAS 133:

<u>Non SFAS 133 Derivatives</u>	<u>Location of Gain (Loss)</u>	<u>Gain (Loss)</u> <u>(\$ in millions)</u>
Commodity contracts	Natural gas and oil sales	\$ 269
Interest rate contracts	Interest expense	44
	Total	<u>\$ 313</u>

- (a) Interest expense on the hedged item for the current period was \$13 million, which is included in the line “Interest expense” on the condensed consolidated statement of operations.
- (b) The amount of gain (loss) recognized in net income (loss) represents the ineffective portion of the hedging relationships and none related to the amount excluded from the assessment of hedge effectiveness.

Concentration of Credit Risk

A significant portion of our liquidity is concentrated in derivative instruments that enable us to hedge a portion of our exposure to natural gas and oil price and interest rate volatility. These arrangements expose us to credit risk from our counterparties. To mitigate this risk, we enter into derivative contracts only with investment-grade rated counterparties deemed by management to be competent and competitive market makers, and we attempt to limit our exposure to non-performance by any single counterparty. On March 31, 2009, our commodity and interest rate derivative instruments were spread among 15 counterparties.

On September 15, 2008, Lehman Brothers Holdings Inc. (“Lehman”) filed for protection under Chapter 11 of the federal Bankruptcy Code in the United States Bankruptcy Court in the Southern District of New York. Chesapeake and its subsidiaries had certain business relationships with Lehman and its subsidiaries.

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Lehman Brothers Commercial Bank (“LBCB”), a subsidiary of Lehman, had \$75 million of the \$3.5 billion in commitments under our revolving bank credit facility. Although LBCB, to date, has not filed for bankruptcy (to our knowledge), LBCB had not funded approximately \$13 million of its share of our borrowings under the credit facility as of March 31, 2009 and we have no reason to expect that LBCB will fund borrowings in the future. The loss of up to \$75 million in borrowing capacity is not material to us.

Chesapeake was a counterparty with Lehman Brothers Commodity Services Inc. (“LBCS”), a subsidiary of Lehman, in financial transactions. Specifically, we utilized LBCS as a counterparty to hedge a portion of our natural gas and oil production. The obligations of LBCS are guaranteed by Lehman, and the Lehman bankruptcy filing resulted in an event of default under our ISDA agreement with LBCS allowing us to terminate the ISDA on September 18, 2008, and cancel the outstanding transactions. The potential loss associated with the termination of such transactions is not material to us.

Chesapeake will continue to closely monitor the Lehman bankruptcy situation and will assert its rights under the various contractual relationships. We believe the Lehman bankruptcy and its potential impact on subsidiaries of Lehman will not have a material adverse effect on Chesapeake or its subsidiaries individually or collectively.

Other financial instruments which potentially subject us to concentrations of credit risk consist principally of investments in equity instruments and accounts receivable. Our accounts receivable are primarily from purchasers of natural gas and oil and exploration and production companies which own interests in properties we operate. This industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic, industry or other conditions. We monitor the creditworthiness of all our counterparties. We generally require letters of credit for receivables from customers which are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated. During the Current Quarter, we recognized an \$8 million bad debt expense related potentially to uncollectible receivables.

3. Contingencies and Commitments

Litigation

We are involved in various disputes incidental to our business operations, including claims from royalty owners regarding volume measurements, post-production costs and prices for royalty calculations. In *Tawney, et al. v. Columbia Natural Resources, Inc.*, Chesapeake’s wholly-owned subsidiary Chesapeake Appalachia, L.L.C., formerly known as Columbia Natural Resources, LLC (CNR), is a defendant in a class action lawsuit filed in 2003 in the Circuit Court for Roane County, West Virginia by royalty owners. The plaintiffs allege that CNR underpaid royalties by improperly deducting post-production costs, failing to pay royalty on total volumes of natural gas produced and not paying a fair value for the natural gas produced from their leases. The plaintiff class consists of West Virginia royalty owners receiving royalties after July 31, 1990 from CNR. Chesapeake acquired CNR in November 2005, and its seller acquired CNR in 2003 from NiSource Inc. NiSource, a co-defendant in the case, indemnified Chesapeake against underpayment claims based on the use of fixed prices for natural gas production sold under certain forward sale contracts and other claims with respect to CNR’s operations prior to September 2003.

On January 27, 2007, the Circuit Court jury returned a verdict against the defendants of \$404 million, consisting of \$134 million in compensatory damages and \$270 million in punitive damages. The jury found fraudulent conduct by the defendants with respect to the sales prices used to calculate royalty payments and with respect to the failure of CNR to disclose post-production deductions. The defendants appealed the judgment and on May 22, 2008, the West Virginia Supreme Court of Appeals refused to hear the appeal. On October 22, 2008, the parties in the *Tawney* matter entered into a settlement agreement providing for the establishment of a settlement fund of \$380 million. The Circuit Court for Roane County, West Virginia approved the settlement following a fairness hearing on November 22, 2008, and entered an order to discharge the judgment on January 21, 2009. Chesapeake’s share of the settlement fund was approximately \$41 million, which amount had previously been fully reserved. The Circuit Court retains continuing jurisdiction over the case during the claims administration process in which the settlement amount is distributed to the members of the plaintiff class.

Chesapeake is subject to other legal proceedings and claims which arise in the ordinary course of business. In our opinion, the final resolution of these proceedings and claims will not have a material effect on the company.

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Employment Agreements with Officers

Chesapeake has employment agreements with its chief executive officer, chief operating officer, chief financial officer and other executive officers, which provide for annual base salaries, various benefits and eligibility for bonus compensation. The agreement with the chief executive officer expires on December 31, 2013 unless extended. The agreement contains a cap on cash salary and bonus compensation for the next five years at 2008 levels. The term of the agreement is automatically extended for one additional year on each December 31 unless the company provides 30 days notice of non-extension. In the event of termination of employment without cause, the chief executive officer's base compensation (defined as base salary plus bonus compensation received during the preceding 12 months) and benefits would continue during the remaining term of the agreement. The chief executive officer is entitled to receive a payment in the amount of three times his base compensation upon the happening of certain events following a change of control. The agreement further provides that any stock-based awards held by the chief executive officer and deferred compensation will immediately become 100% vested upon termination of employment without cause, incapacity, death or retirement at or after age 55. The agreement also provides for a one-time \$75 million well cost incentive award with a five-year clawback. The well cost incentive award was fully applied against Mr. McClendon's obligations under the Founder Well Participation Program as of March 31, 2009. The agreements with the chief operating officer, chief financial officer and other executive officers expire on September 30, 2009. These agreements provide for the continuation of salary for one year in the event of termination of employment without cause or death and, in the event of a change of control, a payment in the amount of two times the executive officer's base compensation. These executive officers are entitled to continue to receive compensation and benefits for 180 days following termination of employment as a result of incapacity. Any stock-based awards held by such executive officers will immediately become 100% vested upon termination of employment without cause, a change of control, death, or retirement at or after age 55.

Environmental Risk

Due to the nature of the natural gas and oil business, Chesapeake and its subsidiaries are exposed to possible environmental risks. Chesapeake has implemented various policies and procedures to avoid environmental contamination and risks from environmental contamination. Chesapeake conducts periodic reviews, on a company-wide basis, to identify changes in our environmental risk profile. These reviews evaluate whether there is a contingent liability, its amount, and the likelihood that the liability will be incurred. The amount of any potential liability is determined by considering, among other matters, incremental direct costs of any likely remediation and the proportionate cost of employees who are expected to devote a significant amount of time directly to any possible remediation effort. We manage our exposure to environmental liabilities on properties to be acquired by identifying existing problems and assessing the potential liability. Depending on the extent of an identified environmental problem, Chesapeake may exclude a property from the acquisition, require the seller to remediate the property to our satisfaction, or agree to assume liability for the remediation of the property. Chesapeake has historically not experienced any significant environmental liability, and is not aware of any potential material environmental issues or claims at March 31, 2009.

Rig Leases

In a series of transactions in 2006, 2007 and 2008, our drilling subsidiaries sold 83 drilling rigs and related equipment for \$677 million and entered into a master lease agreement under which we agreed to lease the rigs from the buyer for initial terms of seven to ten years for lease payments of approximately \$95 million annually. The lease obligations are guaranteed by Chesapeake and its other material restricted subsidiaries. These transactions were recorded as sales and operating leasebacks and any related gain or loss will be amortized to service operations expense over the lease term. Under the rig leases, we can exercise an early purchase option after six or seven years or on the expiration of the lease term for a purchase price equal to the then fair market value of the rigs. Additionally, we have the option to renew the rig lease for a negotiated renewal term at a periodic lease equal to the fair market rental value of the rigs as determined at the time of renewal. As of March 31, 2009, Chesapeake's drilling subsidiaries had committed to acquire 11 rigs by the end of 2009 and had incurred costs of \$68 million as of that date. The total remaining cost of the rigs is estimated to be approximately \$83 million. Our intent is to sell and lease back those rigs as they are delivered if acceptable leasing arrangements are available to us. Commitments related to rig lease payments are not recorded in the accompanying condensed consolidated balance sheets. As of March 31, 2009, the minimum aggregate future rig lease payments were approximately \$597 million.

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Compressor Leases

In a series of transactions in 2007, 2008 and 2009, our compression subsidiary sold a significant portion of its compressor fleet, consisting of 1,685 compressors, for \$372 million and entered into a master lease agreement. The term of the agreement varies by buyer ranging from seven to ten years for aggregate lease payments of approximately \$46 million annually. The lease obligations are guaranteed by Chesapeake and its other material restricted subsidiaries. These transactions were recorded as sales and operating leasebacks and any related gain or loss will be amortized to natural gas and oil marketing expenses over the lease term. Under the leases, we can exercise an early purchase option after five to nine years or we can purchase the compressors at expiration of the lease for the fair market value at the time. In addition, we have the option to renew the lease for negotiated new terms at the expiration of the lease. As of March 31, 2009, 466 new compressors are on order for approximately \$179 million and our intent is to sell and lease back those compressors as they are delivered if acceptable leasing arrangements are available to us. Commitments related to compressor lease payments are not recorded in the accompanying condensed consolidated balance sheets. As of March 31, 2009, the minimum aggregate future compressor lease payments were approximately \$379 million.

Transportation Contracts

Chesapeake has various firm pipeline transportation service agreements with expiration dates ranging from 2009 to 2099. These commitments are not recorded in the accompanying condensed consolidated balance sheets. Under the terms of these contracts, we are obligated to pay demand charges as set forth in the transporter's Federal Energy Regulatory Commission (FERC) gas tariff. In exchange, the company receives rights to flow natural gas production through pipelines located in highly competitive markets. The aggregate amounts of such required demand payments as of March 31, 2009, excluding demand charges for pipeline projects that are currently seeking regulatory approval, were as follows (\$ in millions):

2009	\$ 170
2010	219
2011	193
2012	184
2013	166
After 2013	885
Total	<u>\$1,817</u>

Drilling Contracts

Currently, Chesapeake has contracts with various drilling contractors to lease approximately 32 rigs with terms of one to three years. These commitments are not recorded in the accompanying consolidated balance sheets. As of March 31, 2009, the aggregate drilling rig commitment was approximately \$235 million.

Natural Gas and Oil Purchase Obligations

Our midstream segment regularly commits to purchase natural gas from other owners in our properties and such commitments typically are short term in nature. We have also committed to purchasers of our volumetric production payment transactions (VPPs) that we will purchase natural gas and oil associated with the VPPs. Our VPP purchase commitments extend over 11 to 15 year terms based on market prices at the time of production. As of March 31, 2009, we were obligated to purchase 438 bcfe under the terms of the VPPs. We resell the natural gas and oil we purchase at market prices.

Other Commitments

We own a 49% interest in Mountain Drilling Company, a company that specializes in hydraulic drilling rigs which are designed for drilling in urban areas. Due to a meaningful decline in the overall activity in the drilling market and poor operating performance of Mountain Drilling Company, we determined that an impairment had occurred and we fully impaired our investment at March 31, 2009. Chesapeake has an agreement to lend Mountain Drilling Company up to \$19 million through December 31, 2009. At March 31, 2009, Mountain Drilling owed Chesapeake \$19 million under this agreement.

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We invested in Ventura Refining and Transmission LLC in early 2007. We have an agreement to guarantee various commitments for Ventura, up to \$70 million, to support its operating activities. As of March 31, 2009, we had \$3 million of outstanding performance guarantees. Due to worsening economic conditions, the lack of third party credit available to Ventura, and poor operating performance in the second half of 2008, management determined that an impairment had occurred and we wrote off our investment at December 31, 2008.

4. Net Income Per Share

Statement of Financial Accounting Standards No. 128, *Earnings Per Share*, requires presentation of “basic” and “diluted” earnings per share, as defined, on the face of the statements of operations for all entities with complex capital structures. SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted EPS computations.

For the Current Quarter and the Prior Quarter, there was no difference between basic weighted average shares outstanding, which are used in computing basic EPS, and diluted weighted average shares, which are used in computing EPS assuming dilution.

As a result of the Current Quarter’s net loss to common shareholders, diluted shares for the Current Quarter do not include the effect of (i) outstanding stock options to purchase 1.2 million shares of common stock at a weighted average exercise price of \$8.15, (ii) 2.1 million shares of unvested restricted stock at a weighted average grant-date fair value of \$35.95, (iii) the assumed conversion of 4.125% convertible preferred stock convertible into 180,854 common shares prior to conversion and (iv) the assumed conversion of the following outstanding preferred stock:

- 5.00% (Series 2005) convertible preferred stock convertible into 19,443 common shares,
- 5.00% (Series 2005B) convertible preferred stock convertible into 5,367,289 common shares,
- 4.50% preferred stock convertible into 5,795,396 common shares, and
- 6.25% mandatory convertible preferred stock convertible into 1,237,770 common shares.

As a result of the Prior Quarter’s net loss to common shareholders, diluted shares for the Prior Quarter do not include the effect of (i) outstanding stock options to purchase 2.6 million shares of common stock at a weighted average exercise price of \$7.71, (ii) 5.3 million shares of unvested restricted stock at a weighted average grant-date fair value of \$34.07 and (iii) the assumed conversion of the following outstanding preferred stock:

- 4.125% preferred stock convertible into 184,200 common shares,
- 5.00% (Series 2005) convertible preferred stock convertible into 19,432 common shares,
- 5.00% (Series 2005B) convertible preferred stock convertible into 14,719,425 common shares,
- 4.50% preferred stock convertible into 7,810,800 common shares, and
- 6.25% mandatory convertible preferred stock convertible into 1,031,175 common shares.

5. Stockholders’ Equity, Restricted Stock and Stock Options

Common Stock

The following is a summary of the changes in our common shares issued for the three months ended March 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	<u>(in thousands)</u>	
Shares issued at January 1	607,953	511,648
Stock option exercises	100	621
Restricted stock issuances (net of forfeitures)	2,858	2,296
Preferred stock conversions/exchanges	183	—
Common stock issued for the purchase of leasehold and unproved properties	14,361	—
Shares issued at March 31	<u>625,455</u>	<u>514,565</u>

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Preferred Shares

The following is a summary of the changes in our preferred shares outstanding for the three months ended March 31, 2009 and 2008:

	<u>4.125%</u>	<u>5.00%</u> <u>(2005)</u>	<u>4.50%</u> <u>(in thousands)</u>	<u>5.00%</u> <u>(2005B)</u>	<u>6.25%</u>
Shares outstanding at January 1, 2009	3	5	2,559	2,096	144
Conversion/exchange of preferred for common stock	(3)	—	—	—	—
Shares outstanding at March 31, 2009	—	5	2,559	2,096	144
Shares outstanding at January 1, 2008 and March 31, 2008	3	5	3,450	5,750	144

On March 31, 2009, we converted all of our outstanding 4.125% cumulative convertible preferred stock (3,033 shares) into 182,887 shares of common stock pursuant to the company's mandatory conversion rights.

Dividends

Dividends declared on our common stock and preferred stock are reflected as adjustments to retained earnings to the extent a surplus of retained earnings will exist after giving effect to the dividends. To the extent retained earnings are insufficient to fund the distributions, such payments constitute a return of contributed capital rather than earnings and are accounted for as a reduction to paid-in capital.

Stock-Based Compensation

Chesapeake's stock-based compensation programs consist of restricted stock and stock options issued to employees and non-employee directors. To the extent compensation cost relates to employees directly involved in natural gas and oil exploration and development activities, such amounts are capitalized to natural gas and oil properties. Amounts not capitalized are recognized as general and administrative expenses, production expenses, natural gas and oil marketing expenses or service operations expense. We recorded the following stock-based compensation during the Current Quarter and the Prior Quarter:

	Three Months Ended	
	March 31,	
	<u>2009</u>	<u>2008</u>
	(\$ in millions)	
Natural gas and oil properties	\$ 29	\$ 26
General and administrative expenses	19	19
Production expenses	9	7
Natural gas and oil marketing expenses	4	2
Service operations expense	2	1
Total	<u>\$ 63</u>	<u>\$ 55</u>

Restricted Stock. Chesapeake regularly issues shares of restricted common stock to employees and to non-employee directors. The fair value of the awards issued is determined based on the fair market value of the shares on the date of grant. This value is amortized over the vesting period, which is generally four or five years from the date of grant for employees and three years for non-employee directors.

A summary of the changes in unvested shares of restricted stock during the Current Quarter is presented below:

	Number of	Weighted-Average
	Unvested	Grant-Date
	Restricted Shares	Fair Value
Unvested shares as of January 1, 2009	21,622,202	\$ 38.85
Granted	3,823,904	\$ 17.25
Vested	(2,013,143)	\$ 31.63
Forfeited	(242,745)	\$ 35.83
Unvested shares as of March 31, 2009	<u>23,190,218</u>	<u>\$ 35.95</u>

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The aggregate intrinsic value of restricted stock vested during the Current Quarter was approximately \$34 million based on the stock price at the time of vesting.

As of March 31, 2009, there was \$635 million of total unrecognized compensation cost related to unvested restricted stock. The cost is expected to be recognized over a weighted average period of 2.65 years.

The vesting of certain restricted stock grants results in state and federal income tax benefits related to the difference between the market price of the common stock at the date of vesting and the date of grant. During the Current Quarter, we recognized a reduction in tax benefits related to restricted stock of \$8 million. During the Prior Quarter, we recognized excess tax benefits related to restricted stock of \$6 million. The reduction in tax benefits and the excess tax benefits were recorded as adjustments to additional paid-in capital and deferred income taxes.

Stock Options. Prior to 2006, we granted stock options under several stock compensation plans. Outstanding options expire ten years from the date of grant and are currently fully vested.

The following table provides information related to stock option activity during the Current Quarter:

	Number of Shares Underlying Options	Weighted Average Exercise Price Per Share	Weighted Average Contract Life in Years	Aggregate Intrinsic Value ^(a) (\$ in millions)
Outstanding at January 1, 2009	2,802,421	\$ 8.13	3.59	\$ 23
Exercised	(100,188)	\$ 7.43		\$ 1
Forfeited	—	\$ —		
Expired	—	\$ —		
Outstanding at March 31, 2009	<u>2,702,233</u>	\$ 8.15	3.41	\$ 24
Exercisable at March 31, 2009	<u>2,702,233</u>	\$ 8.15	3.41	\$ 24

- (a) The intrinsic value of a stock option is the amount by which the current market value or the market value upon exercise of the underlying stock exceeds the exercise price of the option.

As of March 31, 2009, unrecognized compensation cost related to unvested stock options was not significant.

During the Current Quarter and the Prior Quarter, we recognized excess tax benefits related to stock options of a nominal amount and \$5 million, respectively, which were recorded as adjustments to additional paid-in capital and deferred income taxes.

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6. Senior Notes and Revolving Bank Credit Facilities

Our total debt consisted of the following as of March 31, 2009 and December 31, 2008:

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u> (Adjusted)
	(\$ in millions)	
7.5% Senior Notes due 2013	\$ 364	\$ 364
7.625% Senior Notes due 2013	500	500
7.0% Senior Notes due 2014	300	300
7.5% Senior Notes due 2014	300	300
6.375% Senior Notes due 2015	600	600
9.5% Senior Notes due 2015	1,425	—
6.625% Senior Notes due 2016	600	600
6.875% Senior Notes due 2016	670	670
6.25% Euro-denominated Senior Notes due 2017 ^(a)	796	835
6.5% Senior Notes due 2017	1,100	1,100
6.25% Senior Notes due 2018	600	600
7.25% Senior Notes due 2018	800	800
6.875% Senior Notes due 2020	500	500
2.75% Contingent Convertible Senior Notes due 2035 ^(b)	451	451
2.5% Contingent Convertible Senior Notes due 2037 ^(b)	1,378	1,378
2.25% Contingent Convertible Senior Notes due 2038 ^(b)	1,126	1,126
Revolving bank credit facility	2,225	3,474
Midstream revolving bank credit facility	164	460
Discount on senior notes ^(c)	(1,129)	(1,094)
Interest rate derivatives ^(d)	163	211
Total notes payable and long-term debt	\$ 12,933	\$ 13,175

(a) The principal amount shown is based on the dollar/euro exchange rate of \$1.3261 to €1.00 and \$1.3919 to €1.00 as of March 31, 2009 and December 31, 2008, respectively. See Note 2 for information on our related cross currency swap.

(b) The holders of our contingent convertible senior notes may require us to repurchase, in cash, all or a portion of their notes at 100% of the principal amount of the notes on any of four dates that are five, ten, fifteen and twenty years before the maturity date. The notes are convertible, at the holder's option, prior to maturity under certain circumstances into cash and, if applicable, shares of our common stock using a net share settlement process. One such triggering circumstance is when the price of our common stock exceeds a threshold amount during a specified period in a fiscal quarter. Convertibility based on common stock price is measured quarter by quarter. In the first quarter of 2009, the price of our common stock was below the threshold level for each series of the contingent convertible senior notes during the specified period and, as a result, the holders do not have the option to convert their notes into cash and common stock in the second quarter of 2009 under this provision. The notes are also convertible, at the holder's option, during specified five-day periods if the trading price of the notes is below certain levels determined by reference to the trading price of our common stock. In general, upon conversion of a contingent convertible senior note, the holder will receive cash equal to the principal amount of the note and common stock for the note's conversion value in excess of such principal amount. We will pay contingent interest on the convertible senior notes after they have been outstanding at least ten years, under certain conditions. We may redeem the convertible senior notes once they have been outstanding for ten years at a redemption price of 100% of the principal amount of the notes, payable in cash. The optional repurchase dates, the common stock price conversion threshold amounts and the ending date of the first six-month period contingent interest may be payable for the contingent convertible senior notes are as follows:

Contingent Convertible Senior Notes	Repurchase Dates	Common Stock Price Conversion Thresholds	Contingent Interest First Payable (if applicable)
2.75% due 2035	November 15, 2015, 2020, 2025, 2030	\$ 48.81	May 14, 2016
2.5% due 2037	May 15, 2017, 2022, 2027, 2032	\$ 64.47	November 14, 2017
2.25% due 2038	December 15, 2018, 2023, 2028, 2033	\$ 107.36	June 14, 2019

(c) Discount at December 31, 2008 is adjusted for the retrospective application of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion*. Included in this discount is \$988 million and \$1.009 billion, respectively, associated with the liability component of our contingent convertible senior notes.

(d) See Note 2 for discussion related to these instruments.

No scheduled principal payments are required under our senior notes until 2013 when \$864 million is due.

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Our outstanding senior notes are unsecured senior obligations of Chesapeake that rank equally in right of payment with all of our existing and future senior indebtedness and rank senior in right of payment to all of our future subordinated indebtedness. We may redeem the senior notes, other than the contingent convertible senior notes, at any time at specified make-whole or redemption prices. Senior notes issued before July 2005 are governed by indentures containing covenants that limit our ability and our restricted subsidiaries' ability to incur additional indebtedness; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness; make investments and other restricted payments; incur liens; enter into sale/leaseback transactions; create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries; engage in transactions with affiliates; sell assets; and consolidate, merge or transfer assets. Senior notes issued after June 2005 are governed by indentures containing covenants that limit our ability and our subsidiaries' ability to incur certain secured indebtedness; enter into sale/leaseback transactions; and consolidate, merge or transfer assets.

Chesapeake Energy Corporation is a holding company and owns no operating assets and has no significant operations independent of its subsidiaries. As of September 30, 2008, our obligations under our outstanding senior notes and contingent convertible notes were fully and unconditionally guaranteed, jointly and severally, by all of our wholly-owned restricted subsidiaries, other than minor subsidiaries, on a senior unsecured basis. In October 2008, we restructured our non-Appalachian midstream operations. As a result, beginning in the fourth quarter of 2008, our wholly-owned midstream subsidiaries having significant assets and operations do not guarantee our outstanding senior notes.

On January 1, 2009, the company adopted and applied retrospectively FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. We have three debt issuances affected by this change: our 2.75% Contingent Convertible Senior Notes due 2035, our 2.5% Contingent Convertible Senior Notes due 2037 and our 2.25% Contingent Convertible Senior Notes due 2038. FSP APB 14-1 requires the company to account for the liability and equity components of its convertible debt instruments separately and to reflect interest expense at the interest rate of similar nonconvertible debt at the time of issuance (6.86%, 8.0% and 8.0%, respectively). The allocation to the equity component of the convertible notes was \$845 million (net of tax) at both March 31, 2009 and December 31, 2008. The accretion of the resulting discount on the debt is recognized as a part of interest expense, thereby increasing the amount of interest expense required to be recognized with respect to such instruments. Given the increase in our overall effective interest rate after adoption of FSP APB 14-1, we also capitalized additional interest which largely offset the increase in interest expense. Additionally, debt issuance costs are required to be allocated in proportion to the liability and equity components and accounted for as debt issuance costs and equity issuance costs, respectively. The applicable nonconvertible debt rates for the issuances are 6.86%, 8.0% and 8.0%, respectively.

The following table summarizes the effect of the change in accounting principle related to our convertible notes on the condensed consolidated balance sheet as of December 31, 2008 (\$ in millions):

	December 31, 2008		
	Previously Reported	Adjustment	Adjusted
Unevaluated properties	\$ 11,216	\$ 163	\$ 11,379
Other long-term assets	1,007	(14)	993
Long-term debt, net	14,184	(1,009)	13,175
Deferred income tax liability	3,763	437	4,200
Paid-in-capital	10,835	845	11,680
Retained earnings	4,694	(125)	4,569

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The following table summarizes the effect of the change in accounting principle related to our convertible notes on the condensed consolidated statement of operations for the three months ended March 31, 2008 (\$ in millions, except per share data):

	Three Months Ended March 31, 2008		
	Previously Reported	Adjustment	Adjusted
Depreciation and amortization of other assets	36	—	36
Interest expense	101	(2)	99
Income tax expense (benefit)	(82)	—	(82)
Net income	(132)	2	(130)
Weighted average common and common equivalent shares outstanding – assuming dilution (in millions)	493		493
Earnings per common share:			
Basic	\$ (0.29)		\$ (0.29)
Diluted	\$ (0.29)		\$ (0.29)

The following table summarizes the effect of the change in accounting principle related to our convertible notes on the condensed consolidated statement of cash flows for the three months ended March 31, 2008 (\$ in millions):

	Three Months Ended March 31, 2008		
	Previously Reported	Adjustment	Adjusted
Cash flows from operating activities	\$ 1,498	\$ 17	\$ 1,515
Cash flows from investing activities	\$ (2,675)	\$ (17)	\$ (2,692)
Cash flows from financing activities	\$ 1,177	\$ —	\$ 1,177

We have a \$3.5 billion syndicated revolving bank credit facility which matures in November 2012. As of March 31, 2009, we had \$2.225 billion in outstanding borrowings under this facility and utilized approximately \$7 million of the facility for various letters of credit. The terms of the credit facility agreement summarized below reflect amendments effected on March 31, 2009.

Borrowings under our facility are secured by certain producing natural gas and oil properties and bear interest at our option at either (i) the greater of the reference rate of Union Bank of California, N.A. or the federal funds effective rate plus 0.50%, both of which are subject to a margin that varies from 0.00% to 0.75% (0.00% prior to the March 31, 2009 amendment) per annum according to our senior unsecured long-term debt ratings, or (ii) the London Interbank Offered Rate (LIBOR), plus a margin that varies from 1.50% to 2.25% (0.75% to 1.50% prior to the March 31, 2009 amendment) per annum according to our senior unsecured long-term debt ratings. The collateral value and borrowing base are determined periodically. The unused portion of the facility is subject to a commitment fee of 0.50% (which varied according to our senior unsecured long-term debt ratings, from 0.125% to 0.30% per annum, prior to the March 31, 2009 amendment). Interest is payable quarterly or, if LIBOR applies, it may be payable at more frequent intervals.

The credit facility agreement contains various covenants and restrictive provisions which limit our ability to incur additional indebtedness, make investments or loans and create liens. The credit facility agreement requires us to maintain an indebtedness to total capitalization ratio (as defined) not to exceed 0.70 to 1 and an indebtedness to EBITDA ratio (as defined) not to exceed 3.75 to 1. Pursuant to the March 31, 2009 amendment of the credit facility, the effects of ceiling test write-downs are excluded from the calculation of total capitalization for purposes of the consolidated indebtedness to total capitalization ratio. As defined by the credit facility agreement, our indebtedness to total capitalization ratio was 0.42 to 1 and our indebtedness to EBITDA ratio was 2.91 to 1 at March 31, 2009. If we should fail to perform our obligations under these and other covenants, the revolving credit commitment could be terminated and any outstanding borrowings under the facility could be declared immediately due and payable. Such acceleration, if involving a principal amount of \$10 million (\$50 million in the case of our senior notes issued after 2004), would constitute an event of default under our senior note indentures, which could in turn result in the acceleration of a significant portion of our senior note indebtedness. The credit facility agreement also has cross default provisions that apply to other indebtedness we may have with an outstanding principal amount in excess of \$75 million.

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Two of our subsidiaries, Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C., are the borrowers under our revolving bank credit facility. The facility is fully and unconditionally guaranteed, on a joint and several basis, by Chesapeake and all of our other wholly-owned restricted subsidiaries.

We also have a secured revolving bank credit facility for our midstream operations, organized under an unrestricted subsidiary, Chesapeake Midstream Partners, L.P. (CMP) and its operating subsidiary, Chesapeake Midstream Operating, L.L.C. (CMO). CMO is the borrower under the facility, which matures in October 2013, has current availability of \$460 million and may be expanded up to \$750 million at CMO's option, subject to additional bank participation. CMO is utilizing the facility to fund capital expenditures associated with building additional natural gas gathering and other systems associated with our drilling program and for general corporate purposes related to our midstream operations. As of March 31, 2009, we had \$164 million in outstanding borrowings under the midstream credit facility.

Borrowings under the midstream credit facility are secured by all of the assets of the midstream companies organized under CMP and bear interest at our option at either (i) the greater of the reference rate of Wells Fargo Bank, National Association, the federal funds effective rate plus 0.50%, and the one month London Interbank Offered Rate plus 1.50%, all of which would be subject to a margin that varies from 0.75% to 1.50% per annum according to the most recent indebtedness to EBITDA ratio (as defined) or (ii) the LIBOR plus a margin that varies from 1.75% to 2.50% per annum according to the most recent indebtedness to EBITDA ratio (as defined). The unused portion of the facility is subject to a commitment fee that varies from 0.30% to 0.45% per annum according to the most recent indebtedness to EBITDA ratio (as defined). Interest is payable quarterly or, if LIBOR applies, it may be paid at more frequent intervals.

The midstream credit facility agreement contains various covenants and restrictive provisions which limit the ability of CMP and its subsidiaries to incur additional indebtedness, make investments or loans and create liens. The credit facility agreement requires maintenance of an indebtedness to EBITDA ratio (as defined) not to exceed 3.50 to 1, and an EBITDA (as defined) to interest expense coverage ratio of not less than 2.50 to 1. As defined by the credit facility agreement, our indebtedness to EBITDA ratio was 0.83 to 1 and our EBITDA to interest expense coverage ratio was 10.98 to 1 at March 31, 2009. If CMP or its subsidiaries should fail to perform their obligations under these and other covenants, the revolving credit commitment could be terminated and any outstanding borrowings under the midstream facility could be declared immediately due and payable. The midstream credit facility agreement also has cross default provisions that apply to other indebtedness CMP and its subsidiaries may have with an outstanding principal amount in excess of \$15 million.

Our revolving bank credit facility and the midstream credit facility do not contain material adverse change or adequate assurance covenants. Although the applicable interest rates in our revolving bank credit facility fluctuate slightly based on our long-term senior unsecured credit ratings, neither of our credit facilities contain provisions which would trigger an acceleration of amounts due under the facilities or a requirement to post additional collateral in the event of a downgrade of our credit ratings.

7. Segment Information

In accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, we have two reportable operating segments. Our exploration and production operational segment and natural gas and oil midstream segment are managed separately because of the nature of their products and services. The exploration and production segment is responsible for finding and producing natural gas and oil. The midstream segment is responsible for gathering, processing, compressing, transporting and selling natural gas and oil primarily from Chesapeake-operated wells. We also have drilling rig and trucking operations which are responsible for providing drilling rigs primarily used on Chesapeake-operated wells and trucking services utilized in the transportation of drilling rigs on both Chesapeake-operated wells and wells operated by third parties.

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Management evaluates the performance of our segments based upon income (loss) before income taxes. Revenues from the midstream segment's sale of natural gas and oil related to Chesapeake's ownership interests are reflected as exploration and production revenues. Such amounts totaled \$671 million and \$1.289 billion for the Current Quarter and the Prior Quarter. The following table presents selected financial information for Chesapeake's operating segments. Our drilling rig and trucking service operations are presented in "Other Operations".

	<u>Exploration and Production</u>	<u>Midstream</u>	<u>Other Operations</u> (\$ in millions)	<u>Intercompany Eliminations</u>	<u>Consolidated Total</u>
For the Three Months Ended March 31, 2009:					
Revenues	\$ 1,397	\$ 1,223	\$ 154	\$ (779)	\$ 1,995
Intersegment revenues	—	(671)	(108)	779	—
Total revenues	<u>\$ 1,397</u>	<u>\$ 552</u>	<u>\$ 46</u>	<u>\$ —</u>	<u>\$ 1,995</u>
Income (loss) before income taxes	<u>\$ (9,193)</u>	<u>\$ 18</u>	<u>\$ (20)</u>	<u>\$ 11</u>	<u>\$ (9,184)</u>
For the Three Months Ended March 31, 2008 (Adjusted):					
Revenues	\$ 773	\$ 2,085	\$ 149	\$ (1,396)	\$ 1,611
Intersegment revenues	—	(1,289)	(107)	1,396	—
Total revenues	<u>\$ 773</u>	<u>\$ 796</u>	<u>\$ 42</u>	<u>\$ —</u>	<u>\$ 1,611</u>
Income (loss) before income taxes	<u>\$ (226)</u>	<u>\$ 15</u>	<u>\$ 20</u>	<u>\$ (21)</u>	<u>\$ (212)</u>
As of March 31, 2009:					
Total assets	\$ 25,698	\$ 5,714	\$ 773	\$ (2,524)	\$ 29,661
As of December 31, 2008 (Adjusted):					
Total assets	\$ 35,192	\$ 3,416	\$ 688	\$ (703)	\$ 38,593

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8. Investments

At March 31, 2009, investments accounted for under the equity method totaled \$352 million and investments accounted for under the cost method totaled \$26 million. Following is a summary of our investments:

	Approximate % Owned	Accounting Method	Carrying Value	
			March 31, 2009	December 31, 2008
(\$ in millions)				
Frac Tech Services, Ltd. ^(a)	20%	Equity	\$ 223	\$ 223
Chaparral Energy, Inc. ^{(b)(c)}	32%	Equity	101	152
DHS Drilling Company ^(b)	47%	Equity	—	19
Sierra Mid-Con, L.P.	50%	Equity	12	12
Gastar Exploration Ltd. ^(b)	17%	Cost	20	11
Mountain Drilling Company ^(b)	49%	Equity	—	9
Other	—	—	22	18
			<u>\$ 378</u>	<u>\$ 444</u>

- (a) The carrying value of our investment in Frac Tech is in excess of our underlying equity in net assets by approximately \$165 million as of March 31, 2009. This excess amount is attributed to certain intangibles associated with the specialty services provided by Frac Tech and is being amortized over the estimated life of the intangibles.
- (b) Our investees have been impacted by the dramatic slowing of the worldwide economy and the tightening of the credit markets in the fourth quarter of 2008 and into 2009. The economic weakness has resulted in significantly reduced oil and natural gas prices leading to a meaningful decline in the overall level of activity in the markets served by our investees. Associated with the weakness in performance of certain of the investees, as well as an evaluation of their financial condition and near-term prospects, we recognized during the Current Quarter that an other than temporary impairment had occurred on March 31, 2009 on the following investments: Chaparral Energy of \$51 million, DHS Drilling Company of \$19 million, Gastar Exploration Ltd. of \$70 million and Mountain Drilling Company of \$9 million. We will continue to monitor the performance of our investments, and it is reasonably possible that we may experience additional impairments, although we do not believe that our exposure to future charges would be material to our consolidated results of operations.
- (c) The carrying value of our investment in Chaparral is in excess of our underlying equity in net assets by approximately \$55 million as of March 31, 2009. This excess is attributed to the natural gas and oil reserves held by Chaparral and is being amortized over the estimated life of these reserves based on a unit of production rate.

9. Fair Value Measurements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* for our financial assets and liabilities measured on a recurring basis. Our nonfinancial assets and liabilities became subject to the statement effective January 1, 2009. This statement establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e., an exit price. To estimate an exit price, a three-level hierarchy is used. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or a liability, into three levels. Level 1 inputs are unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the financial asset or liability and have the lowest priority. Chesapeake uses appropriate valuation techniques based on available inputs, including counterparty quotes, to measure the fair values of its assets and liabilities. Counterparty quotes are generally assessed as a Level 3 input.

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The following table provides fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2009.

	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Fair Value</u>
	(\$ in millions)			
Financial Assets (Liabilities):				
Derivatives, net	\$ —	\$ 910	\$ 434	\$ 1,344
Investments	\$ 20	\$ —	\$ —	\$ 20
Other long-term assets	\$ 19	\$ —	\$ —	\$ 19
Long-term debt	\$ —	\$ —	\$ (1,460)	\$ (1,460)
Other long-term liabilities	\$ 19	\$ —	\$ —	\$ 19

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the table above.

Level 1 Fair Value Measurements

Investments. The fair value of Chesapeake's investment in Gastar Exploration Ltd. common stock is based on a quoted market price.

Other Long-Term Assets and Liabilities. The fair value of other long-term assets and liabilities, consisting of obligations under our Deferred Compensation Plan, is based on quoted market prices.

Level 2 Fair Value Measurements

Derivatives. The fair values of our natural gas swaps are measured internally using established index prices and other sources. These values are based upon, among other things, futures prices and time to maturity. Derivative transactions are also subject to the risk that counterparties will be unable to meet their obligations. Such non-performance risk is considered in the valuation of our derivative instruments, but to date has not had a material impact on the values of our derivatives.

Level 3 Fair Value Measurements

Derivatives. The fair value of our derivative instruments, excluding natural gas swaps, have been established utilizing established index prices, volatility curves and discount factors. These estimates are compared to our counterparty values for reasonableness. Derivative transactions are also subject to the risk that counterparties will be unable to meet their obligations. Such non-performance risk is considered in the valuation of our derivative instruments, but to date has not had a material impact on the values of our derivatives.

Debt. The fair value of our long-term debt is based on the face amount of the debt along with the value of the related interest rate swaps. The interest rate swap values are based on estimates provided by our respective counterparties and reviewed internally for reasonableness using future interest rate curves and time to maturity.

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A reconciliation of Chesapeake's assets and liabilities classified as Level 3 measurements is presented below.

	<u>Derivatives</u>	<u>Debt</u> (\$ in millions)	<u>Total</u>
Balance of Level 3 as of January 1, 2009	\$ 292	\$ (1,470)	\$ (1,178)
Total gains or losses (realized/unrealized):			
Included in earnings ^(a)	(68)	10	(58)
Included in other comprehensive income (loss)	172	—	172
Purchases, issuances and settlements	38	—	38
Transfers in and out of Level 3	—	—	—
Balance of Level 3 as of March 31, 2009	<u>\$ 434</u>	<u>\$ (1,460)</u>	<u>\$ (1,026)</u>

(a)

	<u>Natural Gas and Oil</u> <u>Sales</u>	<u>Interest</u> <u>Expense</u>
	(\$ in millions)	
Total gains and (losses) related to derivatives included in earnings for the period	\$ (66)	\$ (1)
Change in unrealized gains or (losses) relating to assets still held at reporting date	\$ 103	\$ 5

10. Condensed Consolidating Financial Information

Chesapeake Energy Corporation is a holding company and owns no operating assets and has no significant operations independent of its subsidiaries. As of September 30, 2008, our obligations under our outstanding senior notes and contingent convertible notes listed in Note 6 were fully and unconditionally guaranteed, jointly and severally, by all of our wholly-owned subsidiaries, other than minor subsidiaries, on a senior unsecured basis. Since October 2008, following the restructuring of our non-Appalachian midstream operations, certain of our wholly-owned subsidiaries having significant assets and operations have not guaranteed our outstanding notes. The midstream revolving credit facility referred to in Note 6 contains a covenant restricting Chesapeake Midstream Partners, L.P., the parent of our midstream subsidiaries, from paying dividends or distributions or making loans to Chesapeake.

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Set forth below are condensed consolidating financial statements for Chesapeake Energy Corporation (the “parent”) on a stand-alone, unconsolidated basis, and its combined guarantor and combined non-guarantor subsidiaries as of March 31, 2009 and December 31, 2008 and for the three months ended March 31, 2009 and 2008. The financial information may not necessarily be indicative of results of operations, cash flows, or financial position had the subsidiaries operated as independent entities.

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF MARCH 31, 2009
(\$ in millions)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ —	\$ 83	\$ —	\$ —	\$ 83
Other current assets	14	2,670	116	(30)	2,770
Total Current Assets	<u>14</u>	<u>2,753</u>	<u>116</u>	<u>(30)</u>	<u>2,853</u>
PROPERTY AND EQUIPMENT:					
Total natural gas and oil properties, at cost based on full-cost accounting, net	—	20,490	4	—	20,494
Other property and equipment, net	—	2,535	2,827	—	5,362
Total Property and Equipment	<u>—</u>	<u>23,025</u>	<u>2,831</u>	<u>—</u>	<u>25,856</u>
Other assets	244	694	14	—	952
Investments in subsidiaries and intercompany advance	3,195	142	—	(3,337)	—
TOTAL ASSETS	<u>\$ 3,453</u>	<u>\$ 26,614</u>	<u>\$ 2,961</u>	<u>\$ (3,367)</u>	<u>\$ 29,661</u>
CURRENT LIABILITIES:					
Current liabilities	\$ 258	\$ 2,865	\$ 271	\$ (32)	\$ 3,362
Intercompany payable (receivable) from parent	(19,829)	17,481	2,268	80	—
Total Current Liabilities	<u>(19,571)</u>	<u>20,346</u>	<u>2,539</u>	<u>48</u>	<u>3,362</u>
Long-term debt, net	10,544	2,225	164	—	12,933
Deferred income tax liability	536	232	110	(78)	800
Other liabilities	126	616	6	—	748
Total Long-Term Liabilities	<u>11,206</u>	<u>3,073</u>	<u>280</u>	<u>(78)</u>	<u>14,481</u>
Total Stockholders' Equity	<u>11,818</u>	<u>3,195</u>	<u>142</u>	<u>(3,337)</u>	<u>11,818</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 3,453</u>	<u>\$ 26,614</u>	<u>\$ 2,961</u>	<u>\$ (3,367)</u>	<u>\$ 29,661</u>

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2008
Adjusted
(\$ in millions)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ —	\$ 1,749	\$ —	\$ —	\$ 1,749
Other current assets	13	2,372	189	(31)	2,543
Total Current Assets	13	4,121	189	(31)	4,292
PROPERTY AND EQUIPMENT:					
Total natural gas and oil properties, at cost based on full-cost accounting, net	—	28,463	15	—	28,478
Other property and equipment, net	—	1,918	2,912	—	4,830
Total Property and Equipment	—	30,381	2,927	—	33,308
Other assets	140	838	15	—	993
Investments in subsidiaries and intercompany advance	8,455	140	—	(8,595)	—
TOTAL ASSETS	\$ 8,608	\$ 35,480	\$ 3,131	\$ (8,626)	\$ 38,593
CURRENT LIABILITIES:					
Current liabilities	\$ 257	\$ 3,322	\$ 133	\$ (91)	\$ 3,621
Intercompany payable (receivable) from parent	(18,272)	16,047	2,165	60	—
Total Current Liabilities	(18,015)	19,369	2,298	(31)	3,621
Long-term debt, net	9,241	3,474	460	—	13,175
Deferred income tax liability	439	3,534	227	—	4,200
Other liabilities	(74)	648	6	—	580
Total Long-Term Liabilities	9,606	7,656	693	—	17,955
Total Stockholders' Equity	17,017	8,455	140	(8,595)	17,017
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 8,608	\$ 35,480	\$ 3,131	\$ (8,626)	\$ 38,593

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(\$ in millions)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
For the Three Months Ended March 31, 2009:					
REVENUES:					
Natural gas and oil sales	\$ —	\$ 1,397	\$ —	\$ —	\$ 1,397
Natural gas and oil marketing sales	—	489	110	(47)	552
Service operations revenue	—	46	—	—	46
Total Revenues	<u>—</u>	<u>1,932</u>	<u>110</u>	<u>(47)</u>	<u>1,995</u>
OPERATING COSTS:					
Production expenses	—	238	—	—	238
Production taxes	—	23	—	—	23
General and administrative expenses	—	85	5	—	90
Natural gas and oil marketing expenses	—	469	48	6	523
Service operations expense	—	40	—	—	40
Natural gas and oil depreciation, depletion and amortization	—	447	—	—	447
Depreciation and amortization of other assets	(1)	37	20	1	57
Impairment of natural gas and oil properties and other assets	—	9,626	4	—	9,630
Total Operating Costs	<u>(1)</u>	<u>10,965</u>	<u>77</u>	<u>7</u>	<u>11,048</u>
INCOME (LOSS) FROM OPERATIONS	<u>1</u>	<u>(9,033)</u>	<u>33</u>	<u>(54)</u>	<u>(9,053)</u>
OTHER INCOME (EXPENSE):					
Other income (expense)	162	5	3	(162)	8
Interest expense	(127)	(18)	(3)	162	14
Impairment of investments	—	(153)	—	—	(153)
Equity in net earnings of subsidiary	(5,763)	(14)	—	5,777	—
Total Other Income (Expense)	<u>(5,728)</u>	<u>(180)</u>	<u>—</u>	<u>5,777</u>	<u>(131)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(5,727)</u>	<u>(9,213)</u>	<u>33</u>	<u>5,723</u>	<u>(9,184)</u>
INCOME TAX EXPENSE (BENEFIT)	<u>13</u>	<u>(3,450)</u>	<u>13</u>	<u>(20)</u>	<u>(3,444)</u>
NET INCOME (LOSS)	<u>\$ (5,740)</u>	<u>\$ (5,763)</u>	<u>\$ 20</u>	<u>\$ 5,743</u>	<u>\$ (5,740)</u>

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(\$ in millions)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
For the Three Months Ended March 31, 2008:					
REVENUES:					
Natural gas and oil sales	\$ —	\$ 773	\$ —	\$ —	\$ 773
Natural gas and oil marketing sales	—	758	69	(31)	796
Service operations revenue	—	41	7	(6)	42
Total Revenues	<u>—</u>	<u>1,572</u>	<u>76</u>	<u>(37)</u>	<u>1,611</u>
OPERATING COSTS:					
Production expenses	—	201	—	—	201
Production taxes	—	75	—	—	75
General and administrative expenses	—	76	3	—	79
Natural gas and oil marketing expenses	—	747	30	(3)	774
Service operations expense	—	35	3	(3)	35
Natural gas and oil depreciation, depletion and amortization	—	515	—	—	515
Depreciation and amortization of other assets	4	27	11	(6)	36
Total Operating Costs	<u>4</u>	<u>1,676</u>	<u>47</u>	<u>(12)</u>	<u>1,715</u>
INCOME (LOSS) FROM OPERATIONS	<u>(4)</u>	<u>(104)</u>	<u>29</u>	<u>(25)</u>	<u>(104)</u>
OTHER INCOME (EXPENSE):					
Other income (expense)	164	(42)	(1)	(130)	(9)
Interest expense	(99)	(129)	(1)	130	(99)
Equity in net earnings of subsidiary	(168)	2	—	166	—
Total Other Income (Expense)	<u>(103)</u>	<u>(169)</u>	<u>(2)</u>	<u>166</u>	<u>(108)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(107)</u>	<u>(273)</u>	<u>27</u>	<u>141</u>	<u>(212)</u>
INCOME TAX EXPENSE (BENEFIT)	<u>23</u>	<u>(105)</u>	<u>10</u>	<u>(10)</u>	<u>(82)</u>
NET INCOME (LOSS)	<u>\$ (130)</u>	<u>\$ (168)</u>	<u>\$ 17</u>	<u>\$ 151</u>	<u>\$ (130)</u>

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(\$ in millions)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
For the Three Months Ended March 31, 2009:					
CASH FLOWS FROM OPERATING ACTIVITIES	\$ —	\$ 1,141	\$ 120	\$ —	\$ 1,261
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to natural gas and oil properties	—	(1,766)	6	—	(1,760)
Divestitures of proved and unproved natural gas and oil properties	—	—	—	—	—
Additions to other property and equipment	—	(278)	(389)	—	(667)
Other investing activities	—	59	1	—	60
Cash used in investing activities	<u>—</u>	<u>(1,985)</u>	<u>(382)</u>	<u>—</u>	<u>(2,367)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from credit facility borrowings	—	1,301	274	—	1,575
Payments on credit facility borrowings	—	(2,550)	(570)	—	(3,120)
Proceeds from issuance of senior notes, net of offering costs	1,346	—	—	—	1,346
Other financing activities	(72)	(289)	—	—	(361)
Intercompany advances, net	(1,274)	716	558	—	—
Cash provided by financing activities	<u>—</u>	<u>(822)</u>	<u>262</u>	<u>—</u>	<u>(560)</u>
Net increase (decrease) in cash and cash equivalents	—	(1,666)	—	—	(1,666)
Cash and cash equivalents, beginning of period	—	1,749	—	—	1,749
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 83</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 83</u>

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
For the Three Months Ended March 31, 2008:					
CASH FLOWS FROM OPERATING ACTIVITIES	\$ —	\$ 1,474	\$ 41	\$ —	\$ 1,515
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to natural gas and oil properties	—	(2,424)	(3)	—	(2,427)
Divestitures of proved and unproved natural gas and oil properties	—	243	—	—	243
Additions to other property and equipment	—	(273)	(278)	—	(551)
Other investing activities	—	43	—	—	43
Cash used in investing activities	<u>—</u>	<u>(2,411)</u>	<u>(281)</u>	<u>—</u>	<u>(2,692)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from credit facility borrowings	—	2,591	—	—	2,591
Payments on credit facility borrowings	—	(1,377)	—	—	(1,377)
Proceeds from issuance of senior notes, net of offering costs	—	—	—	—	—
Proceeds from issuance of common stock, net of offering costs	—	—	—	—	—
Other financing activities	(47)	10	—	—	(37)
Intercompany advances, net	—	(240)	240	—	—
Cash provided by financing activities	<u>(47)</u>	<u>984</u>	<u>240</u>	<u>—</u>	<u>1,177</u>
Net increase (decrease) in cash and cash equivalents	(47)	47	—	—	—
Cash and cash equivalents, beginning of period	—	1	—	—	1
Cash and cash equivalents, end of period	<u>\$ (47)</u>	<u>\$ 48</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

11. Recently Issued and Proposed Accounting Standards

The FASB recently issued the following standards which were reviewed by Chesapeake to determine the potential impact on our financial statements upon adoption.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. This statement changes the disclosure requirements for derivative instruments and hedging activities. The statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. We adopted this statement in the Current Quarter. This statement had no financial impact on our condensed consolidated financial statements. See Note 2 for additional information on the adoption of SFAS No. 161.

On December 31, 2008, the Securities and Exchange Commission (SEC) adopted major revisions to its rules governing oil and gas company reporting requirements. These include provisions that permit the use of new technologies to determine proved reserves and that allow companies to disclose their probable and possible reserves to investors. The current rules limit disclosure to only proved reserves. The new disclosure requirements also require companies to report the independence and qualifications of the person primarily responsible for the preparation or audit of reserve estimates, and to file reports when a third party is relied upon to prepare or audit reserves estimates. The new rules also require that oil and gas reserves be reported and the full-cost ceiling value calculated using an average price based upon the prior 12-month period. The new oil and gas reporting requirements are effective for annual reports on Form 10-K for fiscal years ending on or after December 31, 2009, with early adoption not permitted. We are in the process of assessing the impact of these new requirements on our financial position, results of operations and financial disclosures.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following table sets forth certain information regarding the production volumes, natural gas and oil sales, average sales prices received, other operating income and expenses for the three months ended March 31, 2009 (the "Current Quarter") and the three months ended March 31, 2008 (the "Prior Quarter"):

	Three Months Ended March 31,	
	2009	2008 (Adjusted)
Net Production:		
Natural gas (mmcf)	195,749	187,772
Oil (mmbbls)	2,874	2,746
Natural gas equivalent (mmcfe)	212,993	204,248
Natural Gas and Oil Sales (\$ in millions):		
Natural gas sales	\$ 674	\$ 1,432
Natural gas derivatives – realized gains (losses)	510	268
Natural gas derivatives – unrealized gains (losses)	68	(1,002)
Total natural gas sales	<u>1,252</u>	<u>698</u>
Oil sales	104	258
Oil derivatives – realized gains (losses)	9	(53)
Oil derivatives – unrealized gains (losses)	32	(130)
Total oil sales	<u>145</u>	<u>75</u>
Total natural gas and oil sales	<u>\$ 1,397</u>	<u>\$ 773</u>
Average Sales Price (excluding all gains (losses) on derivatives):		
Natural gas (\$ per mcf)	\$ 3.44	\$ 7.63
Oil (\$ per bbl)	\$ 35.99	\$ 94.14
Natural gas equivalent (\$ per mcfe)	\$ 3.65	\$ 8.28
Average Sales Price (excluding unrealized gains (losses) on derivatives):		
Natural gas (\$ per mcf)	\$ 6.05	\$ 9.05
Oil (\$ per bbl)	\$ 39.12	\$ 74.73
Natural gas equivalent (\$ per mcfe)	\$ 6.09	\$ 9.33
Other Operating Income^(a) (\$ in millions):		
Natural gas and oil marketing	\$ 29	\$ 22
Service operations	\$ 6	\$ 7
Other Operating Income^(a) (\$ per mcfe):		
Natural gas and oil marketing	\$ 0.14	\$ 0.11
Service operations	\$ 0.03	\$ 0.03
Expenses (\$ per mcfe):		
Production expenses	\$ 1.12	\$ 0.98
Production taxes	\$ 0.11	\$ 0.37
General and administrative expenses	\$ 0.42	\$ 0.39
Natural gas and oil depreciation, depletion and amortization	\$ 2.10	\$ 2.52
Depreciation and amortization of other assets	\$ 0.27	\$ 0.18
Interest expense ^(b)	\$ 0.14	\$ 0.42
Interest Expense (\$ in millions):		
Interest expense	\$ 38	\$ 86
Interest rate derivatives – realized (gains) losses	(7)	—
Interest rate derivatives – unrealized (gains) losses	(45)	13
Total interest expense	<u>\$ (14)</u>	<u>\$ 99</u>
Net Wells Drilled	264	448
Net Producing Wells as of the End of the Period	22,691	21,471

(a) Includes revenue and operating costs and excludes depreciation and amortization of other assets.

(b) Includes the effects of realized gains (losses) from interest rate derivatives, but excludes the effects of unrealized gains (losses) and is net of amounts capitalized.

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We are the largest independent producer of natural gas in the United States. We own interests in approximately 43,200 producing oil and natural gas wells that are currently producing approximately 2.3 bcf 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., primarily in the “Big 4” natural gas shale plays: the Barnett Shale in the Fort Worth Basin of north-central Texas, the Haynesville Shale in the Ark-La-Tex area of northwestern Louisiana and East Texas, the Fayetteville Shale in the Arkoma Basin of central Arkansas and the Marcellus Shale in the northern Appalachian Basin of West Virginia, Pennsylvania and New York. We also have substantial operations in various other plays, both conventional and unconventional, in the Mid-Continent, Appalachian Basin, Permian Basin, Delaware Basin, South Texas, Texas Gulf Coast and Ark-La-Tex regions of the United States.

During the Current Quarter, Chesapeake continued the industry’s most active drilling program drilling 307 gross (237 net) operated wells and participating in another 219 gross (27 net) wells operated by other companies. The company’s drilling success rate was 98% for company-operated wells and 99% for non-operated wells. Also during the Current Quarter, we invested \$1.020 billion in operated wells (using an average of 113 operated rigs) and \$166 million in non-operated wells (using an average of 58 non-operated rigs) for total drilling, completing and equipping costs of \$1.186 billion. At May 7, 2009, we were using 94 operated drilling rigs, reflecting the company’s decreased drilling activity in response to low natural gas and oil prices.

On April 16, 2009, we announced that we had elected to curtail approximately 400 million cubic feet (mmcf) per day of our gross operated natural gas production due to continued low wellhead prices. The reduction included the approximate 200 mmcf per day curtailment of natural gas production previously announced on March 2, 2009. Prices remain very volatile, and we will restore production from time to time, or curtail production further, based on market conditions. Our strong financial condition, the availability of substantial drilling credits as a result of the 2008 joint ventures, and our extensive natural gas hedging positions provide us with the operational and financial flexibility to curtail production during periods of unusually low prices. The company will monitor market conditions to determine an appropriate time to resume full production.

Chesapeake began 2009 with estimated proved reserves of 12.051 tcf and ended the Current Quarter with 11.851 tcf, a decrease of 200 bcf, or 2%. During the Current Quarter, we replaced 213 bcf of production with an internally estimated 13 bcf of new proved reserves, for a reserve replacement rate of 6%. The quarter’s reserve movement includes 427 bcf of extensions, 9 bcf of acquisitions, 397 bcf of positive performance revisions and 820 bcf of downward revisions resulting from natural gas price decreases between December 31, 2008 and March 31, 2009. Based on our current drilling schedule and budget, we expect that virtually all of the proved undeveloped reserves added in 2009 will begin producing within the next three to five years. Generally, proved developed reserves are producing at the time they are added or will begin producing within one year.

Since 2000, Chesapeake has invested \$13.3 billion in new leasehold (net of proceeds from divestitures) and 3-D seismic acquisitions and now owns the largest combined inventories of onshore leasehold (15.2 million net acres) and 3-D seismic (22.3 million acres) in the U.S. On this leasehold, the company has approximately 36,000 net drillsites representing more than a 10-year inventory of drilling projects.

Our total debt as a percentage of total capitalization (total capitalization is the sum of total debt less cash on hand and stockholders’ equity) was 52% as of March 31, 2009 and 40% as of December 31, 2008. The increase in this percentage is primarily the result of the reduction of equity as the result of the Current Quarter \$5.7 billion net loss. The average maturity of our long-term debt is over seven years with an average coupon interest rate of approximately 6.1%. No scheduled principal payments are required under our senior notes until 2013 when \$864 million is due.

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Business Strategy

Our exploration, development and acquisition activities require us to make substantial capital expenditures. Through the middle of 2008, we increased our capital expenditure budget for 2008 and 2009 several times in response to higher leasehold acquisition costs and in order to accelerate leasehold acquisition and drilling primarily in the Haynesville, Barnett and Marcellus Shale plays. During the second half of 2008 and again in 2009, in response to a significant decrease in natural gas prices, deteriorating global economic conditions and outlook and concerns about an oversupply of natural gas in the U.S. market, and in recognition of the substantial reduction in capital requirements resulting from our joint ventures with Plains Exploration & Production Company (PXP), BP America (BP) and StatoilHydro U.S.A. (StatoilHydro), we significantly reduced our planned capital expenditures through year-end 2010. We further believe our innovative joint ventures will create a significant cost advantage that will allow us to drive down finding costs in our joint venture plays. Our current budgeted capital expenditures are \$4.350 billion to \$4.975 billion in 2009 and \$4.050 billion to \$4.675 billion in 2010. We anticipate directing approximately 80% of our gross drilling capital expenditures during 2009 and 2010 to our Big 4 shale plays.

During each of 2009 and 2010, we anticipate our exploration and development costs will be up to 40% lower than 2008 costs as a result of lower service costs and the benefit of using approximately \$2.4 billion of joint venture drilling credits in three of our Big 4 shale plays. The following table provides information about the joint venture drilling credits:

	Shale Play		
	Haynesville(a)	Fayetteville	Marcellus
	(\$ in millions)		
Joint venture with	PXP	BP	StatoilHydro
Closing date	July 1, 2008	September 19, 2008	November 24, 2008
Cash proceeds at closing	\$ 1,650	\$ 1,100	\$ 1,250
Total drilling credit	\$ 1,650	\$ 800	\$ 2,125
Drilling credit billed as of March 31, 2009	\$ 158	\$ 371	\$ 11
Remaining drilling credit as of March 31, 2009	\$ 1,492	\$ 429	\$ 2,114

- (a) Chesapeake and PXP amended their joint venture in February 2009 to provide PXP a one-time option in June 2010 to reduce its obligation to fund our drilling and completion costs by \$800 million in exchange for assigning us 50% of PXP's interest in the Haynesville joint venture properties.

Cash flow from operations is our primary source of liquidity used to fund capital expenditures. Our \$3.5 billion revolving bank credit facility and our \$460 million midstream revolving bank credit facility provide us with additional liquidity. In February 2009, we issued \$1.425 billion principal amount of our 9.5% senior notes due 2015. Net proceeds of \$1.346 billion were used to repay outstanding indebtedness under our revolving bank credit facility, which we may reborrow from time to time to fund drilling and leasehold acquisition initiatives and for general corporate purposes. At March 31, 2009, we had borrowings of \$2.225 billion and letters of credit of \$7 million outstanding under our revolving bank credit facility and we had borrowings of \$164 million under the midstream credit facility.

During 2009 and 2010, we plan to increase our liquidity, reduce our borrowings under our revolving bank credit facility and also strengthen our balance sheet through asset monetizations and the growth of our proved reserve base. Transactions we expect to complete in 2009 include the following:

- We are currently documenting our fifth volumetric production payment transaction (VPP) involving certain of our South Texas assets. We anticipate proceeds of approximately \$475 million and expect to complete the transaction in the 2009 second quarter.
- We plan to sell certain non-Haynesville Shale producing assets in Louisiana in a sixth VPP in the second half of 2009 for approximately \$250 million.
- We are in due diligence with a private equity investor to sell a 50% minority interest in our Barnett Shale and Mid-Continent natural gas gathering and processing assets in our midstream business, Chesapeake Midstream Partners. We anticipate proceeds of more than \$550 million and expect to complete the transaction in the 2009 third quarter.
- We anticipate selling approximately \$300 million of mature producing assets late in the 2009 second quarter and another \$200 million in the second half of 2009.
- We are currently in discussions with several companies about a possible Barnett Shale joint venture transaction and anticipate completing a transaction by year-end 2009 for proceeds of approximately \$200 million to \$300 million.

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We believe that our anticipated internally generated cash flow, cash resources, expected asset monetization transactions and other sources of liquidity will allow us to fully fund our capital expenditure requirements in 2009. Further deterioration of the economy, continued low natural gas and oil prices and other factors, however, could require us to further curtail our spending.

Liquidity and Capital Resources

Sources and Uses of Funds

Cash flow from operations is a significant source of liquidity used to fund capital expenditures. Our joint venture drilling credits also provide an additional source of liquidity that have reduced and will continue to reduce our capital expenditures. Cash provided by operating activities was \$1.261 billion in the Current Quarter compared to \$1.515 billion in the Prior Quarter. The \$254 million decrease in the Current Quarter was primarily due to lower natural gas and oil prices. Changes in cash flow from operations are largely due to the same factors that affect our net income, excluding non-cash items such as ceiling test write-downs, depreciation, depletion and amortization, deferred income taxes and unrealized gains and (losses) on derivatives. See the discussion below under *Results of Operations*.

Changes in market prices for natural gas and oil directly impact the level of our cash flow from operations. To mitigate the risk of declines in natural gas and oil prices and to provide more predictable future cash flow from operations, we currently have hedged through swaps and collars 82% of our expected remaining natural gas and oil production in 2009 and 24% of our expected natural gas and oil production in 2010 at average prices of \$7.56 per mcf and \$9.45 per mcf, respectively. Our natural gas and oil hedges as of March 31, 2009 are detailed in Item 3 of Part I of this report. Depending on changes in natural gas and oil futures markets and management's view of underlying natural gas and oil supply and demand trends, we may increase or decrease our current hedging positions. As of March 31, 2009, we had a net natural gas and oil derivative asset of \$1.481 billion.

Our \$3.5 billion bank credit facility, our \$460 million midstream credit facility and cash and cash equivalents are other sources of liquidity. At May 7, 2009, there was \$1.268 billion of borrowing capacity available under the revolving bank credit facility and \$220 million of borrowing capacity under the midstream credit facility. We use the facilities and cash on hand to fund daily operating activities and acquisitions as needed. We borrowed \$1.575 billion and repaid \$3.120 billion in the Current Quarter, and we borrowed \$2.591 billion and repaid \$1.377 billion in the Prior Quarter.

On February 2, 2009, we completed a public offering of \$1.0 billion aggregate principal amount of senior notes due 2015, which have a stated coupon rate of 9.5% per annum. The senior notes were priced at 95.071% of par to yield 10.625%. On February 17, 2009, we completed an offering of an additional \$425 million aggregate principal amount of the 9.5% Senior Notes due 2015. The additional senior notes were priced at 97.75% of par plus accrued interest from February 2 to February 17, 2009 to yield 10.0% per annum. Net proceeds of \$1.346 billion from these two offerings were used to repay outstanding indebtedness under our revolving bank credit facility, which we may reborrow from time to time to fund drilling and leasehold acquisition initiatives and for general corporate purposes.

Our primary use of funds is for capital expenditures related to exploration, development and acquisition of natural gas and oil properties. We refer you to the table under *Investing Activities* below, which sets forth the components of our natural gas and oil investing activities and our other investing activities for the Current Quarter and the Prior Quarter. We retain a significant degree of control over the timing of our capital expenditures which permits us to defer or accelerate certain capital expenditures if necessary to address any potential liquidity issues. In addition, changes in drilling and field operating costs, drilling results that alter planned development schedules, acquisitions or other factors could cause us to revise our drilling program, which is largely discretionary.

We paid dividends on our common stock of \$44 million and \$33 million in the Current Quarter and the Prior Quarter, respectively. The board of directors increased the quarterly dividend on common stock from \$0.0675 to \$0.075 per share beginning with the dividend paid in July 2008. Dividends paid on our preferred stock decreased to \$6 million in the Current Quarter from \$12 million in the Prior Quarter as a result of conversions and exchanges of preferred stock into common stock during 2008 and 2009. We received \$1 million and \$4 million from the exercise of employee and director stock options in the Current Quarter and the Prior Quarter.

In the Current Quarter and Prior Quarter, we received \$1 million and paid \$33 million, respectively, to settle a portion of the derivative liabilities assumed in our November 2005 acquisition of Columbia Natural Resources, LLC.

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SFAS 123(R) requires tax benefits resulting from stock-based compensation deductions in excess of amounts reported for financial reporting purposes to be reported as cash flows from financing activities. In the Current Quarter and the Prior Quarter, we reported a tax benefit from stock-based compensation of \$0 and \$11 million, respectively.

Outstanding payments from certain disbursement accounts in excess of funded cash balances where no legal right of set-off exists decreased \$287 million in the Current Quarter and increased \$44 million in the Prior Quarter. All disbursements are funded on the day they are presented to our bank using available cash on hand or draws on our revolving bank credit facility.

Credit Risk

A significant portion of our liquidity is concentrated in derivative instruments that enable us to hedge a portion of our exposure to natural gas and oil prices and interest rate volatility. These arrangements expose us to credit risk from our counterparties. To mitigate this risk, we enter into derivative contracts only with investment-grade rated counterparties deemed by management to be competent and competitive market makers.

Our accounts receivable are primarily from purchasers of natural gas and oil (\$475 million at March 31, 2009) and exploration and production companies which own interests in properties we operate (\$476 million at March 31, 2009). This industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that our customers and joint working interest owners may be similarly affected by changes in economic, industry or other conditions. We generally require letters of credit or parental guarantees for receivables from parties which are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated. During the Current Quarter, we recognized an \$8 million bad debt expense related to potentially uncollectible receivables.

Investing Activities

Cash used in investing activities decreased to \$2.367 billion during the Current Quarter, compared to \$2.692 billion during the Prior Quarter. We have been reducing our drilling program since the third quarter of 2008 and our leasehold and property acquisitions expenditures in the Current Quarter were 72% lower than in the Prior Quarter. The following table shows our cash used in (provided by) investing activities during these periods:

	Three Months Ended	
	March 31,	
	2009	2008
	(\$ in millions)	
Natural Gas and Oil Investing Activities:		
Exploration and development of natural gas and oil properties	\$ 1,272	\$ 1,322
Acquisition of leasehold and unproved properties	257	860
Acquisitions of natural gas and oil companies and proved properties, net of cash acquired	3	64
Geological and geophysical costs	74	84
Interest capitalized on unproved properties	154	97
Divestitures of proved and unproved properties and leasehold	—	(243)
Total natural gas and oil investing activities	<u>1,760</u>	<u>2,184</u>
Other Investing Activities:		
Additions to other property and equipment	667	551
Proceeds from sale of compressors	(68)	(17)
Proceeds from sale of drilling rigs and equipment	—	(34)
Additions to investments	8	9
Sale of other assets	—	(1)
Total other investing activities	<u>607</u>	<u>508</u>
Total cash used in investing activities	<u>\$ 2,367</u>	<u>\$ 2,692</u>

Due to current general economic conditions, decreases in natural gas prices and concerns about an oversupply of natural gas in the U.S. market, we and other exploration and production companies have significantly decreased budgets for natural gas and oil investing activities in 2009. In connection with our reduced budget for acquisitions, we are using our common stock for some or all of the consideration for certain transactions. In December 2008, we registered 25 million shares of common stock that we may offer and issue to acquire assets (including mineral interests), businesses or securities of other companies. As of May 8, 2009, we had issued approximately 17.5 million shares of common stock for leasehold acquisitions and anticipate we may issue the remaining shares over the course of 2009.

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Bank Credit Facilities

We have a \$3.5 billion syndicated revolving bank credit facility that matures in November 2012. As of March 31, 2009, we had \$2.225 billion in outstanding borrowings under this facility and had utilized approximately \$7 million of the facility for various letters of credit. The terms of the credit facility agreement summarized below reflect amendments effected on March 31, 2009.

Borrowings under the facility are secured by certain producing natural gas and oil properties and bear interest at our option at either (i) the greater of the reference rate of Union Bank of California, N.A., or the federal funds effective rate plus 0.50%, both of which are subject to a margin that varies from 0.00% to 0.75% (0.00% prior to the March 31, 2009 amendment) per annum according to our senior unsecured long-term debt ratings, or (ii) the London Interbank Offered Rate (LIBOR), plus a margin that varies from 1.50% to 2.25% (0.75% to 1.50% prior to the March 31, 2009 amendment) per annum according to our senior unsecured long-term debt ratings. The collateral value and borrowing base are redetermined periodically. The unused portion of the facility is subject to a commitment fee of 0.50% (which varied according to our senior unsecured long-term debt ratings, from 0.125% to 0.30% per annum, prior to the March 31, 2009 amendment). Interest is payable quarterly or, if LIBOR applies, it may be payable at more frequent intervals.

The credit facility agreement contains various covenants and restrictive provisions which limit our ability to incur additional indebtedness, make investments or loans and create liens. The credit facility agreement requires us to maintain an indebtedness to total capitalization ratio (as defined) not to exceed 0.70 to 1 and an indebtedness to EBITDA ratio (as defined) not to exceed 3.75 to 1. Pursuant to the March 31, 2009 amendment of the credit facility, the effects of ceiling test write-downs are excluded from the calculation of total capitalization for purposes of the consolidated indebtedness to total capitalization ratio. As defined by the credit facility agreement, our indebtedness to total capitalization ratio was 0.42 to 1 and our indebtedness to EBITDA ratio was 2.91 to 1 at March 31, 2009. If we should fail to perform our obligations under these and other covenants, the revolving credit commitment could be terminated and any outstanding borrowings under the facility could be declared immediately due and payable. Such acceleration, if involving a principal amount of \$10 million (\$50 million in the case of our senior notes issued after 2004), would constitute an event of default under our senior note indentures, which could in turn result in the acceleration of a significant portion of our senior note indebtedness. The credit facility agreement also has cross default provisions that apply to other indebtedness of the company and its restricted subsidiaries that we may have with an outstanding principal amount in excess of \$75 million.

We also have a secured revolving bank credit facility for our midstream operations, organized under an unrestricted subsidiary, Chesapeake Midstream Partners, L.P. (CMP) and its operating subsidiary, Chesapeake Midstream Operating, L.L.C. (CMO). The facility matures in October 2013, has initial availability of \$460 million and may be expanded up to \$750 million at CMO's option, subject to additional bank participation. CMO is utilizing the facility to fund capital expenditures associated with building additional natural gas gathering and other systems associated with our drilling program and for general corporate purposes related to our midstream operations. As of March 31, 2009, we had \$164 million in outstanding borrowings under the midstream credit facility.

Borrowings under the midstream credit facility are secured by all of the assets of the midstream companies organized under CMP and bear interest at our option at either (i) the greater of the reference rate of Wells Fargo Bank, National Association, the federal funds effective rate plus 0.50%, and the one month London Interbank Offered Rate plus 1.50%, all of which would be subject to a margin that varies from 0.75% to 1.50% per annum according to the most recent indebtedness to EBITDA ratio (as defined) or (ii) the LIBOR plus a margin that varies from 1.75% to 2.50% per annum according to the most recent indebtedness to EBITDA ratio (as defined). The unused portion of the facility is subject to a commitment fee that varies from 0.30% to 0.45% per annum according to the most recent indebtedness to EBITDA ratio (as defined). Interest is payable quarterly or, if LIBOR applies, it may be paid at more frequent intervals.

The midstream credit facility agreement contains various covenants and restrictive provisions which limit the ability of CMP and its subsidiaries to incur additional indebtedness, make investments or loans and create liens. The credit facility agreement requires maintenance of an indebtedness to EBITDA ratio (as defined) not to exceed 3.50 to 1, and an EBITDA (as defined) to interest expense coverage ratio of not less than 2.50 to 1. As defined by the credit facility agreement, our indebtedness to EBITDA ratio was 0.83 to 1 and our EBITDA to interest expense coverage ratio was 10.98 to 1 at March 31, 2009. If CMP or its subsidiaries should fail to perform their obligations under these and other covenants, the revolving credit commitment could be terminated and any outstanding borrowings under the midstream facility could be declared immediately due and payable. The midstream credit facility agreement also has cross default provisions that apply to other indebtedness of CMP and its subsidiaries may have with an outstanding principal amount in excess of \$15 million.

Hedging Facilities

We have six secured hedging facilities, each of which permits us to enter into cash-settled natural gas and oil commodity transactions, valued by the counterparty, for up to a stated maximum value. Outstanding transactions under each facility are collateralized by certain of our natural gas and oil properties that do not secure any of our other obligations. The value of reserve collateral pledged to each facility is required to be at least 1.3 or 1.5 times the fair value of transactions outstanding under each facility. In addition, we may pledge collateral from our revolving bank credit facility, from time to time, to these facilities to meet any additional collateral coverage requirements. The hedging facilities are subject to an annual exposure fee, which is assessed quarterly based on the average of the daily negative fair value amounts of the hedges, if any, during the quarter. The hedging facilities

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contain the standard representations and default provisions that are typical of such agreements. The agreements also contain various restrictive provisions which govern the aggregate natural gas and oil production volumes that we are permitted to hedge under all of our agreements at any one time. The fair value of outstanding transactions, per annum exposure fees and the scheduled maturity dates are shown below.

	Secured Hedging Facilities ^(a)					
	#1	#2	#3	#4	#5	#6
	(\$ in millions)					
Fair value of outstanding transactions, as of March 31, 2009	\$ 165	\$ 584	\$ 76	\$ (3)	\$ 98	\$ 136
Per annum exposure fee	1%	1%	0.8%	0.8%	0.8%	0.8%
Scheduled maturity date	2010	2013	2020	2012	2012	2012

- (a) Chesapeake Exploration, L.L.C. is the named party to the facilities numbered 1 – 3 and Chesapeake Energy Corporation is the named party to the facilities numbered 4 – 6.

The facilities in general do not contain material adverse change or adequate assurance covenants. Although the applicable interest rates under our revolving bank credit facility fluctuate slightly based on our long-term senior unsecured credit ratings, neither of our credit facilities nor the secured hedging facilities contain provisions which would trigger an acceleration of amounts due under the facilities or a requirement to post additional collateral in the event of a downgrade of our credit ratings.

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Senior Note Obligations

In addition to outstanding revolving bank credit facility borrowings discussed above, as of March 31, 2009, senior notes represented approximately \$10.5 billion of our total debt and consisted of the following (\$ in millions):

7.5% Senior Notes due 2013	\$ 364
7.625% Senior Notes due 2013	500
7.0% Senior Notes due 2014	300
7.5% Senior Notes due 2014	300
6.375% Senior Notes due 2015	600
9.5% Senior Notes due 2015	1,425
6.625% Senior Notes due 2016	600
6.875% Senior Notes due 2016	670
6.25% Euro-denominated Senior Notes due 2017 ^(a)	796
6.5% Senior Notes due 2017	1,100
6.25% Senior Notes due 2018	600
7.25% Senior Notes due 2018	800
6.875% Senior Notes due 2020	500
2.75% Contingent Convertible Senior Notes due 2035 ^(b)	451
2.5% Contingent Convertible Senior Notes due 2037 ^(b)	1,378
2.25% Contingent Convertible Senior Notes due 2038 ^(b)	1,126
Discount on senior notes	(1,129)
Interest rate derivatives ^(c)	163
	<u>\$10,544</u>

(a) The principal amount shown is based on the dollar/euro exchange rate of \$1.3261 to €1.00 as of March 31, 2009. See Note 2 of our condensed consolidated financial statements included in this report for information on our related cross currency swap.

(b) The holders of our contingent convertible senior notes may require us to repurchase, in cash, all or a portion of their notes at 100% of the principal amount of the notes on any of four dates that are five, ten, fifteen and twenty years before the maturity date. The notes are convertible, at the holder's option, prior to maturity under certain circumstances into cash and, if applicable, shares of our common stock using a net share settlement process. One such triggering circumstance is when the price of our common stock exceeds a threshold amount during a specified period in a fiscal quarter. Convertibility based on common stock price is measured quarter by quarter. In the first quarter of 2009, the price of our common stock was below the threshold level for each series of the contingent convertible senior notes during the specified period and, as a result, the holders do not have the option to convert their notes into cash and common stock in the second quarter of 2009 under this provision. The notes are also convertible, at the holder's option, during specified five-day periods if the trading price of the notes is below certain levels determined by reference to the trading price of our common stock. In general, upon conversion of a contingent convertible senior note, the holder will receive cash equal to the principal amount of the note and common stock for the note's conversion value in excess of such principal amount. We will pay contingent interest on the convertible senior notes after they have been outstanding at least ten years, under certain conditions. We may redeem the convertible senior notes once they have been outstanding for ten years at a redemption price of 100% of the principal amount of the notes, payable in cash. The optional repurchase dates, the common stock price conversion threshold amounts and the ending date of the first six-month period contingent interest may be payable for the contingent convertible senior notes are as follows:

Contingent Convertible Senior Notes	Repurchase Dates	Common Stock Price Conversion Thresholds	Contingent Interest First Payable (if applicable)
2.75% due 2035	November 15, 2015, 2020, 2025, 2030	\$ 48.81	May 14, 2016
2.5% due 2037	May 15, 2017, 2022, 2027, 2032	\$ 64.47	November 14, 2017
2.25% due 2038	December 15, 2018, 2023, 2028, 2033	\$ 107.36	June 14, 2019

(c) See Note 2 of our condensed consolidated financial statements included in this report for discussion related to these instruments.

As of March 31, 2009 and currently, debt ratings for the senior notes are Ba3 by Moody's Investor Service (stable outlook), BB by Standard & Poor's Ratings Services (stable outlook) and BB by Fitch Ratings (negative outlook).

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Our senior notes are unsecured senior obligations of Chesapeake and rank equally in right of payment with all of our other existing and future senior indebtedness and rank senior in right of payment to all of our future subordinated indebtedness. We may redeem the senior notes, other than the contingent convertible senior notes, at any time at specified make-whole redemption prices. Senior notes issued before July 2005 are governed by indentures containing covenants that limit our ability and our restricted subsidiaries' ability to incur additional indebtedness; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness; make investments and other restricted payments; incur liens; enter into sale/leaseback transactions; create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries; engage in transactions with affiliates; sell assets; and consolidate, merge or transfer assets. Senior notes issued after June 2005 are governed by indentures containing covenants that limit our ability and our restricted subsidiaries' ability to incur certain secured indebtedness; enter into sale/leaseback transactions; and consolidate, merge or transfer assets. The debt incurrence covenants do not presently restrict our ability to borrow under or expand our secured credit facility. As of March 31, 2009, we estimate that secured commercial bank indebtedness of approximately \$5.6 billion could have been incurred under the most restrictive indenture covenant.

Other Contractual Obligations

Chesapeake has various financial obligations which are not recorded as liabilities in its condensed consolidated balance sheet at March 31, 2009. These include commitments related to drilling rig and compressor leases, transportation and drilling contracts, natural gas and oil purchase obligations and lending and guarantee agreements. These commitments are discussed in Note 3 of our condensed consolidated financial statements included in this report.

Results of Operations – Three Months Ended March 31, 2009 vs. March 31, 2008

General. For the Current Quarter, Chesapeake had a net loss of \$5.740 billion, or \$9.63 per diluted common share, on total revenues of \$1.995 billion. This compares to a net loss of \$130 million, or \$0.29 per diluted common share, on total revenues of \$1.611 billion during the Prior Quarter. The Current Quarter loss was due to a non-cash impairment expense of approximately \$6.0 billion, net of tax, as a result of a 36% decrease in NYMEX natural gas prices from \$5.71 per mcf at December 31, 2008 to \$3.63 per mcf at March 31, 2009. The Prior Quarter loss was due to an unrealized non-cash after-tax mark-to-market loss of \$704 million related to future period natural gas and oil and interest rate hedges resulting primarily from higher natural gas and oil prices as of March 31, 2008 compared to December 31, 2007.

Natural Gas and Oil Sales. During the Current Quarter, natural gas and oil sales were \$1.397 billion compared to \$773 million in the Prior Quarter. In the Current Quarter, Chesapeake produced 213.0 bcf at a weighted average price of \$6.09 per mcf, compared to 204.2 bcf produced in the Prior Quarter at a weighted average price of \$9.33 per mcf (weighted average prices exclude the effect of unrealized gains or (losses) on natural gas and oil derivatives of \$101 million and (\$1.132) billion in the Current Quarter and Prior Quarter, respectively). In the Current Quarter, the decrease in prices resulted in a decrease in revenue of \$690 million and increased production resulted in an \$81 million increase, for a net decrease in revenues of \$609 million (excluding unrealized gains or losses on natural gas and oil derivatives). The increase in production from the Prior Quarter to the Current Quarter was primarily generated from the drillbit.

For the Current Quarter, we realized an average price per mcf of natural gas of \$6.05, compared to \$9.05 in the Prior Quarter (weighted average prices for both quarters exclude the effect of unrealized gains or losses on derivatives). Oil prices realized per barrel (excluding unrealized gains or losses on derivatives) were \$39.12 and \$74.73 in the Current Quarter and Prior Quarter, respectively. Realized gains or losses from our natural gas and oil derivatives resulted in a net increase in natural gas and oil revenues of \$519 million, or \$2.44 per mcf, in the Current Quarter and an increase of \$214 million, or \$1.05 per mcf, in the Prior Quarter.

Changes in natural gas and oil prices have a significant impact on our natural gas and oil revenues and cash flows. Assuming the Current Quarter production levels, a change of \$0.10 per mcf of natural gas sold would have resulted in an increase or decrease in revenues and cash flow of approximately \$20 million and \$19 million, respectively, and a change of \$1.00 per barrel of oil sold would have resulted in an increase or decrease in revenues and cash flow of approximately \$3 million without considering the effect of derivative activities.

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The following table shows our production by region for the Current Quarter and the Prior Quarter:

	For the Three Months Ended			
	March 31,			
	2009		2008	
	Mmcfe	Percent	Mmcfe	Percent
Barnett Shale	57,661	27%	37,973	19%
Haynesville Shale	6,585	3	182	—
Fayetteville Shale ^(a)	18,194	9	11,111	5
Marcellus Shale ^{(a)(b)}	657	—	303	—
Mid-Continent	75,265	35	94,463	46
Appalachian Basin	8,466	4	7,584	4
Permian and Delaware Basins	19,412	9	20,118	10
South Texas/Gulf Coast/Ark-La-Tex	26,753	13	32,514	16
Total production	212,993	100%	204,248	100%

(a) The Current Quarter was impacted by the sale of an estimated 4.6 bcf and 3.5 bcf of production in the BP Arkoma and BP Fayetteville divestitures, respectively.

(b) The Current Quarter was impacted by the sale of 4.0 bcf, 3.9 bcf and 5.4 bcfe of production in VPP transactions that closed on May 1, 2008, August 1, 2008 and December 31, 2008, respectively.

Natural gas production represented approximately 92% in both the Current Quarter the Prior Quarter of our total production volume on a natural gas equivalent basis.

Natural Gas and Oil Marketing Sales and Operating Expenses. Natural gas and oil marketing activities are substantially for third parties who are owners in Chesapeake-operated wells. Chesapeake realized \$552 million in natural gas and oil marketing sales in the Current Quarter, with corresponding natural gas and oil marketing expenses of \$523 million, for a net margin before depreciation of \$29 million. This compares to sales of \$796 million, expenses of \$774 million and a net margin before depreciation of \$22 million in the Prior Quarter. In the Current Quarter, Chesapeake realized an increase in natural gas and oil marketing net margin primarily due to an increase in the gathering rates charged to third parties.

Service Operations Revenue and Operating Expenses. Service operations consist of third-party revenue and operating expenses related to our drilling and oilfield trucking operations. Chesapeake recognized \$46 million in service operations revenue in the Current Quarter with corresponding service operations expense of \$40 million, for a net margin before depreciation of \$6 million. This compares to revenue of \$42 million, expenses of \$35 million and a net margin before depreciation of \$7 million in the Prior Quarter. The decrease in margins during the Current Quarter was the result of increased expenses associated with the leasing cost of the numerous rigs we have sold and leased back in the past three years and reduced drilling rig rates.

Production Expenses. Production expenses, which include lifting costs and ad valorem taxes, were \$238 million in the Current Quarter compared to \$201 million in the Prior Quarter. On a unit-of-production basis, production expenses were \$1.12 per mcfe in the Current Quarter compared to \$0.98 per mcfe in the Prior Quarter. The increase in the Current Quarter was primarily due to higher ad valorem taxes and personnel costs. We expect that production expenses for 2009 will range from \$1.10 to \$1.20 per mcfe produced.

Production Taxes. Production taxes were \$23 million in the Current Quarter compared to \$75 million in the Prior Quarter. On a unit-of-production basis, production taxes were \$0.11 per mcfe in the Current Quarter compared to \$0.37 per mcfe in the Prior Quarter. The \$52 million decrease in production taxes in the Current Quarter is due to a decrease in the average realized sales price of natural gas and oil of \$4.63 per mcfe (excluding gains or losses on derivatives), which was partially offset by an increase in production of 9 bcfe.

In general, production taxes are calculated using value-based formulas that produce higher per unit costs when natural gas and oil prices are higher. We expect production taxes for 2009 to range from \$0.20 to \$0.25 per mcfe based on NYMEX prices ranging from \$5.00 to \$6.00 per mcf of natural gas and oil prices of \$48.27 per barrel.

General and Administrative Expenses. General and administrative expenses, including stock-based compensation but excluding internal costs capitalized to our natural gas and oil properties, were \$90 million in the Current Quarter and \$79 million in the Prior Quarter. General and administrative expenses were \$0.42 and \$0.39 per mcfe for the Current Quarter and Prior Quarter, respectively. The increase in the Current Quarter was the result of the company's overall growth as well as cost and wage inflation. Included in general and administrative expenses is stock-based compensation of \$19 million for both the Current Quarter and the Prior Quarter. We anticipate that general and administrative expenses for 2009 will be between \$0.43 and \$0.49 per mcfe produced (including stock-based compensation ranging from \$0.10 to \$0.12 per mcfe).

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Our stock-based compensation for employees and non-employee directors is in the form of restricted stock. Prior to 2004, stock-based compensation awards were only in the form of stock options. Employee stock-based compensation awards generally vest over a period of four or five years. Our non-employee director awards vest over a period of three years. The discussion of stock-based compensation in Note 5 of our condensed consolidated financial statements included in Part I of this report provides additional detail on the accounting for and reporting of our restricted stock and stock options.

Chesapeake follows the full-cost method of accounting under which all costs associated with natural gas and oil property acquisition, exploration and development activities are capitalized. We capitalize internal costs that can be directly identified with our exploration and development activities and do not include any costs related to production, general corporate overhead or similar activities. We capitalized \$93 million and \$84 million of internal costs in the Current Quarter and the Prior Quarter, respectively, directly related to our natural gas and oil property acquisition, exploration and development efforts.

Natural Gas and Oil Depreciation, Depletion and Amortization. Depreciation, depletion and amortization of natural gas and oil properties was \$447 million and \$515 million during the Current Quarter and the Prior Quarter, respectively. The average DD&A rate per mcf, which is a function of capitalized costs, future development costs and the related underlying reserves in the periods presented, was \$2.10 and \$2.52 in the Current Quarter and in the Prior Quarter, respectively. The \$0.42 decrease in the average DD&A rate is due primarily to the reduction of our natural gas and oil full-cost pool resulting from divestitures in 2008, the utilization of joint venture drilling credits in the Current Quarter, and the impairment of natural gas and oil properties in 2008 and the additions of reserves through our exploration activities. We expect the DD&A rate for 2009 to be between \$1.50 and \$1.70 per mcf produced which is significantly lower than our Current Quarter rate as a result of the Current Quarter impairment of natural gas and oil properties.

Depreciation and Amortization of Other Assets. Depreciation and amortization of other assets was \$57 million in the Current Quarter and \$36 million in the Prior Quarter. Depreciation and amortization of other assets was \$0.27 and \$0.18 per mcf for the Current Quarter and the Prior Quarter, respectively. The increase in the Current Quarter is a result of the significant increase in the investment in our gathering systems, buildings and rigs. Property and equipment costs are depreciated on a straight-line basis. Buildings are depreciated over 15 to 39 years, gathering facilities are depreciated over 20 years, drilling rigs are depreciated over 15 years and all other property and equipment are depreciated over the estimated useful lives of the assets, which range from two to ten years. To the extent company-owned drilling rigs and equipment are used to drill our wells, a substantial portion of the depreciation is capitalized in natural gas and oil properties as exploration or development costs. We expect 2009 depreciation and amortization of other assets to be between \$0.25 and \$0.30 per mcf produced.

Impairment of Natural Gas and Oil Properties and Other Assets. We account for our natural gas and oil properties using the full-cost method of accounting, which limits the amount of costs we can capitalize and requires us to write off these costs if the carrying value of natural gas and oil assets in the evaluated portion of our full-cost pool exceeds the sum of the present value of expected future net cash flows of proved reserves, using a 10% pre-tax discount rate based on constant pricing and cost assumptions, and the present value of certain natural gas and oil hedges.

We reported a non-cash impairment charge of \$9.6 billion for the Current Quarter due to a 36% decrease in NYMEX natural gas prices from \$5.71 per mcf at December 31, 2008 to \$3.63 per mcf at March 31, 2009. Included in this write-down was the impairment of approximately \$1.9 billion of unevaluated leasehold. In connection with our scaled-back drilling program, lower natural gas prices and our more focused development efforts in the Big 4 natural gas shale plays, we determined that certain of our unevaluated leasehold positions would likely not be developed and would be allowed to expire. Accordingly, the carrying costs of the impaired leasehold were transferred to the amortization base of our full-cost pool during the Current Quarter and were consequently included in our ceiling test impairment during the Current Quarter.

Additionally, we recognized a \$22 million charge for a deposit on canceled contracts that we do not anticipate being refunded.

Impairment of Investments. In the Current Quarter, we recorded a \$153 million impairment of certain investments. Each of our investees has been impacted by the dramatic slowing of the worldwide economy and the freezing of the credit markets in the fourth quarter of 2008 and into 2009. The economic weakness has resulted in significantly reduced natural gas and oil prices leading to a meaningful decline in the overall level of activity in the markets served by our investees. Associated with the weakness in performance of certain of the investees, as well as an evaluation of their financial condition and near-term prospects, we recognized that an other than temporary impairment had occurred on the following investments: Gastar Exploration Ltd., \$70 million; Chaparral Energy, Inc., \$51 million; DHS Drilling Company, \$19 million; and Mountain Drilling Company, \$9 million. Additionally we recognized approximately \$4 million of impairment charges related to other investments.

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Other Income (Expense). Interest and other income (expense) was \$8 million in the Current Quarter compared to (\$9) million in the Prior Quarter. The Current Quarter consisted of \$3 million of interest income, a (\$1) million loss related to our equity in the net losses of certain investments, a \$1 million gain on sale of assets and \$5 million of miscellaneous income. The Prior Quarter income consisted of \$2 million of interest income, a (\$12) million loss related to our equity in the net losses of certain investments and \$1 million of miscellaneous income.

Interest Expense. Interest expense decreased to (\$14) million in the Current Quarter compared to \$99 million in the Prior Quarter as follows:

	Three Months Ended	
	March 31,	
	2009	2008
	(\$ in millions)	
Interest expense on senior notes and revolving bank credit facility	\$ 194	\$ 180
Capitalized interest	(161)	(103)
Realized (gain) loss on interest rate derivatives	(7)	—
Unrealized (gain) loss on interest rate derivatives	(45)	13
Amortization of loan discount and other	5	9
Total interest expense	\$ (14)	\$ 99
Average long-term borrowings	\$ 10,802	\$ 8,974

Interest expense, excluding unrealized gains or losses on derivatives and net of amounts capitalized, was \$0.14 per mcfe in the Current Quarter compared to \$0.42 in the Prior Quarter. The decrease in interest expense per mcfe is primarily due to an increase in capitalized interest and increased production volumes. Capitalized interest increased by \$58 million as a result of a significant increase in unevaluated properties, the base on which interest is capitalized in the Current Quarter compared to the Prior Quarter. We expect interest expense for 2009 to be between \$0.30 and \$0.35 per mcfe produced (before considering the effect of interest rate derivatives).

Income Tax Expense (Benefit). Chesapeake recorded a deferred income tax benefit of \$3.444 billion in the Current Quarter, compared to a deferred income tax benefit of \$82 million in the Prior Quarter. Of the \$3.362 billion increase in income tax benefit recorded in the Current Quarter, \$3.454 billion was the result of the decrease in net income before income taxes which was offset by \$92 million due to a decrease in the effective tax rate. Our effective income tax rate was 37.5% in the Current Quarter and 38.5% in the Prior Quarter. Our effective tax rate fluctuates as a result of the impact of state income taxes and permanent differences.

Critical Accounting Policies

We consider accounting policies related to hedging, natural gas and oil properties, income taxes and business combinations to be critical policies. These policies are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K").

Recently Issued and Proposed Accounting Standards

The Financial Accounting Standards Board (FASB) recently issued the following standards which were reviewed by Chesapeake to determine the potential impact on our financial statements upon adoption.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. This statement changes the disclosure requirements for derivative instruments and hedging activities. The statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. We adopted this statement in the Current Quarter. This statement had no financial impact on our condensed consolidated financial statements. See Note 2 of our condensed consolidated financial statements included in this report for additional information on the adoption of SFAS No. 161.

On December 31, 2008, the Securities and Exchange Commission (SEC) adopted major revisions to its rules governing oil and gas company reporting requirements. These include provisions that permit the use of new technologies to determine proved reserves and that allow companies to disclose their probable and possible reserves to investors. The current rules limit disclosure to only proved reserves. The new disclosure requirements also

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require companies to report the independence and qualifications of the person primarily responsible for the preparation or audit of reserve estimates, and to file reports when a third party is relied upon to prepare or audit reserves estimates. The new rules also require that oil and gas reserves be reported and the full-cost ceiling value calculated using an average price based upon the prior 12-month period. The new oil and gas reporting requirements are effective for annual reports on Form 10-K for fiscal years ending on or after December 31, 2009, with early adoption not permitted. We are in the process of assessing the impact of these new requirements on our financial position, results of operations and financial disclosures.

Forward-Looking Statements

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give our current expectations or forecasts of future events. They include estimates of natural gas and oil reserves, expected natural gas and oil production and future expenses, assumptions regarding future natural gas and oil prices, planned capital expenditures, and anticipated asset acquisitions and sales, as well as statements concerning anticipated cash flow and liquidity, business strategy and other plans and objectives for future operations. Disclosures concerning the fair values of derivative contracts and their estimated contribution to our future results of operations are based upon market information as of a specific date. These market prices are subject to significant volatility.

Although we believe the expectations and forecasts reflected in these and other forward-looking statements are reasonable, we can give no assurance they will prove to have been correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Factors that could cause actual results to differ materially from expected results are described under “Risk Factors” in Item 1A of our 2008 Form 10-K. They include:

- the volatility of natural gas and oil prices,
- the limitations our level of indebtedness may have on our financial flexibility,
- impacts the current financial crisis may have on our business and financial condition,
- declines in the values of our natural gas and oil properties resulting in ceiling test write-downs,
- the availability of capital on an economic basis, including planned asset monetization transactions, to fund reserve replacement costs,
- our ability to replace reserves and sustain production,
- uncertainties inherent in estimating quantities of natural gas and oil reserves and projecting future rates of production and the timing of development expenditures,
- exploration and development drilling that does not result in commercially productive reserves,
- leasehold terms expiring before production can be established,
- hedging activities resulting in lower prices realized on natural gas and oil sales and the need to secure hedging liabilities,
- uncertainties in evaluating natural gas and oil reserves of acquired properties and potential liabilities,
- the negative effect lower natural gas and oil prices could have on our ability to borrow,
- drilling and operating risks, including potential environmental liabilities,
- transportation capacity constraints and interruptions that could adversely affect our cash flow,
- adverse effects of governmental and environmental regulation, and
- losses possible from pending or future litigation.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this report and our other filings with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Natural Gas and Oil Hedging Activities

Our results of operations and operating cash flows are impacted by changes in market prices for natural gas and oil. To mitigate a portion of the exposure to adverse market changes, we have entered into various derivative instruments. These instruments allow us to predict with greater certainty the effective natural gas and oil prices to be received for our hedged production. Although derivatives often fail to achieve 100% effectiveness for accounting purposes, we believe our derivative instruments continue to be highly effective in achieving the risk management objectives for which they were intended.

Our general strategy for attempting to mitigate exposure to adverse natural gas price changes is to hedge into strengthening gas futures markets when prices allow us to generate high cash margins and when we view prices to be in the upper range of our predicted most likely future price range. Information we consider in forming an opinion about future prices includes general economic conditions, industrial output levels and expectations, producer breakeven cost structures, liquefied natural gas import trends, gas storage inventory levels, industry decline rates for base production and weather trends.

We use a wide range of instruments to achieve our risk management objectives, including swaps, swaps with imbedded puts (knockouts), various collar arrangements, and options (puts or calls). All of these are more fully described below. We typically use swaps or knockouts for much of the volume of gas we are hedging. Swaps are used when the price level is acceptable, and we are not paid a sufficient premium for selling an additional put (the knockouts) that could cause the swap to become ineffective if the NYMEX future price closes below some lower threshold on the settlement date, typically the last trading date of the production month. We do use the knockouts when we are able to obtain a premium for the put that increases our swap pricing when we think the put level is more likely than not to be reached. We also sell calls, taking advantage of the volatility counterparties are willing to pay us, for some smaller portion of our predicted volumes when the absolute price level and the call premium are attractive to us, meaning that we believe it to be more likely than not that the future gas price will not exceed the call strike plus the premium we receive.

The volume of the potential hedging we may enter into is determined by reviewing the company's estimated future production levels, which are derived from extensive examination of existing producing reserve estimates, coupled with our estimates of likely production (risky) from new drilling. These are updated at least every month and adjusted if necessary to actual results and activity levels. We do not hedge more volumes than we expect to produce, and if production estimates are lowered for future periods and hedges are already executed for some volume above the new predicted volumes, the hedges are reversed. The actual price level we decide on with a counterparty is derived from market discovery and bidding and the reference NYMEX price as reflected in current NYMEX trading. Settlement dates of these contracts follow the future NYMEX month and the posted penultimate or last trading day of that contract, which is all standardized in the industry and set by NYMEX.

If our view of future market conditions changes, and prices have fallen to levels we believe are unsustainable, we may close a position by doing a cash settlement with our counterparty, or by entering into a new swap that effectively reverses the position (a counter-swap). The factors we consider in closing a position before the settlement date are identical to those we reviewed when deciding to enter into the original hedge position.

As of March 31, 2009, our natural gas and oil derivative instruments were comprised of the following:

- For swap instruments, Chesapeake receives a fixed price for the hedged commodity and pays a floating market price to the counterparty.
- Collars contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, Chesapeake receives the fixed price and pays the market price. If the market price is between the call and the put strike price, no payments are due from either party.
- For knockout swaps, Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for the possibility to reduce the counterparty's exposure to zero, in any given month, if the floating market price is lower than certain pre-determined knockout prices.
- For cap-swaps, Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for a "cap" limiting the counterparty's exposure. In other words, there is no limit to Chesapeake's exposure but there is a limit to the downside exposure of the counterparty.
- For call options, Chesapeake receives a premium from the counterparty in exchange for the sale of a call option. If the market price exceeds the fixed price of the call option, Chesapeake pays the counterparty such excess. If the market price settles below the fixed price of the call option, no payment is due from Chesapeake.
- For put options, Chesapeake receives a premium from the counterparty in exchange for the sale of a put option. If the market price falls below the fixed price of the put option, Chesapeake pays the counterparty such shortfall. If the market price settles above the fixed price of the put option, no payment is due from Chesapeake.
- Basis protection swaps are arrangements that guarantee a price differential for natural gas or oil from a specified delivery point. For Mid-Continent basis protection swaps, which typically have negative differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract. For Appalachian Basin basis protection swaps, which typically have positive differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is less than the stated terms of the contract and pays the counterparty if the price differential is greater than the stated terms of the contract.

All of our derivative instruments are net settled based on the difference between the fixed-price payment and the floating-price payment, resulting in a net amount due to or from the counterparty.

Chesapeake enters into counter-swaps from time to time for the purpose of locking-in the value of a swap. Under the counter-swap, Chesapeake receives a

floating price for the hedged commodity and pays a fixed price to the counterparty. The counter-swap is 100% effective in locking-in the value of a swap since subsequent changes in the market value of the swap are entirely offset by subsequent changes in the market value of the counter-swap. We refer to this locked-in value as a locked swap. Generally, at the time Chesapeake enters into a counter-swap, Chesapeake removes the original swap's designation as a cash flow hedge and classifies the original swap as a non-qualifying hedge under SFAS 133. The reason for this new designation is that collectively the swap and the counter-swap no longer hedge the exposure to variability in expected future cash flows. Instead, the swap and counter-swap effectively lock-in a specific gain or loss that will be unaffected by subsequent variability in natural gas and oil prices. Any locked-in gain or loss is recorded in accumulated other comprehensive income and reclassified to natural gas and oil sales in the month of related production.

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In accordance with FASB Interpretation No. 39, to the extent that a legal right of set-off exists, Chesapeake nets the value of its derivative arrangements with the same counterparty in the accompanying condensed consolidated balance sheets.

Gains or losses from certain derivative transactions are reflected as adjustments to natural gas and oil sales on the consolidated statements of operations. Realized gains (losses) are included in natural gas and oil sales in the month of related production. Pursuant to SFAS 133, certain derivatives do not qualify for designation as cash flow hedges. Changes in the fair value of these non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the condensed consolidated statements of operations as unrealized gains (losses) within natural gas and oil sales. Following provisions of SFAS 133, changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributable to the hedged risk, are recorded in other comprehensive income until the hedged item is recognized in earnings. Any change in fair value resulting from ineffectiveness is currently recognized in natural gas and oil sales as unrealized gains (losses). The components of natural gas and oil sales for the Current Quarter, the Prior Quarter are presented below.

	Three Months Ended	
	March 31,	
	2009	2008
	(\$ in millions)	
Natural gas and oil sales	\$ 778	\$ 1,690
Realized gains (losses) on natural gas and oil derivatives	519	215
Unrealized gains (losses) on non-qualifying natural gas and oil derivatives	46	(1,067)
Unrealized gains (losses) on ineffectiveness of cash flow hedges	54	(65)
Total natural gas and oil sales	<u>\$ 1,397</u>	<u>\$ 773</u>

As of March 31, 2009, we had the following open natural gas and oil derivative instruments (including derivatives assumed through our acquisition of CNR in November 2005) designed to hedge a portion of our natural gas and oil production for periods after March 31, 2009:

	Volume	Weighted Average Fixed Price to be Received per mmbtu	Weighted Average Put Fixed Price per mmbtu	Weighted Average Call Fixed Price per mmbtu	Weighted Average Differential per mmbtu	SFAS 133 Hedge	Net Premiums (\$ in millions)	Fair Value at March 31, 2009 (\$ in millions)
Natural Gas (bbtu):								
Swaps:								
Q2 2009	57,518	\$ 7.85	\$ —	\$ —	\$ —	Yes	\$ —	\$ 226
Q3 2009	57,614	8.06	—	—	—	Yes	—	216
Q4 2009	99,694	7.57	—	—	—	Yes	—	238
Q1 2010	14,893	9.98	—	—	—	Yes	—	62
Q2-Q4 2010	40,905	8.89	—	—	—	Yes	—	117
2011	10,950	8.59	—	—	—	Yes	—	20
CNR Swaps ^(b) :								
Q2 2009	4,550	5.18	—	—	—	Yes	—	6
Q3 2009	4,600	5.18	—	—	—	Yes	—	5
Q4 2009	4,600	5.18	—	—	—	Yes	—	1
Other Swaps ^(a) :								
Q2 2009	3,640	10.67	—	—	—	No	—	25
Q3 2009	3,680	10.77	—	—	—	No	—	24
Q4 2009	3,680	11.15	—	—	—	No	—	23
Q1 2010	3,600	11.35	—	—	—	No	—	—
Q2-Q4 2010	24,750	9.89	—	—	—	No	—	(2)
2011	4,500	8.73	—	—	—	No	—	(1)
Counter Swaps								
Q2 2009	(3,640)	(9.26)	—	—	—	No	—	(20)
Q3 2009	(3,680)	(9.26)	—	—	—	No	—	(19)
Q4 2009	(3,680)	(9.26)	—	—	—	No	—	(16)

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	Volume	Weighted Average Fixed Price to be Received per mmbtu	Weighted Average Put Fixed Price per mmbtu	Weighted Average Call Fixed Price per mmbtu	Weighted Average Differential per mmbtu	SFAS 133 Hedge	Net Premiums (\$ in millions)	Fair Value at March 31, 2009 (\$ in millions)
Collars:								
Q2 2009	20,020	\$ —	\$ 7.16	\$ 8.07	\$ —	Yes	\$ —	\$ 64
Q3 2009	23,280	—	7.20	8.10	—	Yes	—	70
Q4 2009	17,220	—	7.36	8.24	—	Yes	—	44
Q1 2010	22,500	—	6.00	8.00	—	Yes	—	15
CNR Collars ^(b) :								
Q2 2009	910	—	4.50	6.00	—	Yes	—	1
Q3 2009	920	—	4.50	6.00	—	Yes	—	1
Q4 2009	920	—	4.50	6.00	—	Yes	—	—
Other Collars ^(c) :								
Q2 2009	81,135	—	5.24/6.99	9.18	—	No	3	206
Q3 2009	85,060	—	5.24/6.98	9.16	—	No	3	199
Q4 2009	44,860	—	5.39/7.28	9.49	—	No	3	97
Q1 2010	17,100	—	5.18/7.05	9.49	—	No	5	19
Q2-Q4 2010	30,170	—	5.29/7.33	10.21	—	No	16	44
2011	18,250	—	6.00/7.80	11.13	—	No	14	26
2012 – 2017	21,920	—	6.00/7.30	12.00	—	No	1	3
Knockout Swaps:								
Q4 2009	5,490	10.17	6.33	—	—	No	—	3
Q1 2010	11,700	10.71	6.33	—	—	No	—	9
Q2-Q4 2010	57,830	9.85	6.16	—	—	No	—	23
2011	23,650	9.86	6.29	—	—	No	—	5
Call Options:								
Q2 2009	18,315	—	—	8.86	—	No	27	—
Q3 2009	27,160	—	—	8.83	—	No	27	(1)
Q4 2009	28,980	—	—	9.03	—	No	27	(4)
Q1 2010	57,150	—	—	10.93	—	No	42	(6)
Q2-Q4 2010	174,625	—	—	10.71	—	No	125	(19)
2011	116,800	—	—	10.70	—	No	78	(39)
2012 – 2020	186,440	—	—	11.71	—	No	122	(109)
Put Options:								
Q2 2009	9,100	—	5.75	—	—	No	1	(17)
Q3 2009	9,200	—	5.75	—	—	No	1	(16)
Q4 2009	9,200	—	5.75	—	—	No	1	(12)
Q1 2010	9,000	—	5.75	—	—	No	1	(8)
Q2-Q4 2010	27,500	—	5.75	—	—	No	2	(26)
Basis Protection Swaps:								
(Mid-Continent):								
Q2 2009	16,457	—	—	—	(1.38)	No	—	(7)
Q3 2009	16,821	—	—	—	(1.37)	No	—	(12)
Q4 2009	16,953	—	—	—	(1.36)	No	—	(6)
2011	45,090	—	—	—	(0.82)	No	(3)	(1)
2012 – 2018	57,961	—	—	—	(0.90)	No	(3)	(8)
Basis Protection Swaps:								
(Appalachian Basin):								
Q2 2009	4,178	—	—	—	0.28	No	—	—
Q3 2009	4,448	—	—	—	0.27	No	—	1
Q4 2009	4,438	—	—	—	0.27	No	—	1
Q1 2010	2,293	—	—	—	0.26	No	—	—
Q2-Q4 2010	7,905	—	—	—	0.26	No	—	1
2011	12,086	—	—	—	0.25	No	—	2
2012 – 2022	134	—	—	—	0.11	No	—	—
Total Natural Gas							493	1,448

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	Volume	Weighted Average Fixed Price to be Received per bbl	Weighted Average Put Fixed Price per bbl	Weighted Average Call Fixed Price per bbl	Weighted Average Differential per bbl	SFAS 133 Hedge	Net Premiums (\$ in millions)	Fair Value at March 31, 2009 (\$ in millions)
Oil (mmbbls):								
Other Swaps:								
Q2 2009	910	\$ 86.25	\$ —	\$ —	\$ —	No	\$ —	\$ 31
Counter Swaps:								
Q2 2009	(819)	67.00	—	—	—	No	—	(12)
Q3 2009	(230)	69.10	—	—	—	No	—	(3)
Q4 2009	(230)	69.10	—	—	—	No	—	(3)
Cap Swaps:								
Q2 2009	182	67.50	50.00	—	—	No	—	2
Knockout Swaps:								
Q2 2009	364	84.52	59.75	—	—	No	—	1
Q3 2009	1,288	85.73	59.93	—	—	No	—	6
Q4 2009	1,288	85.71	58.51	—	—	No	—	4
Q1 2010	1,170	90.25	60.00	—	—	No	—	5
Q2-Q4 2010	3,575	90.25	60.00	—	—	No	—	11
2011	1,095	104.75	60.00	—	—	No	—	9
2012	732	109.50	60.00	—	—	No	—	6
Call Options:								
Q2 2009	1,274	—	—	101.79	—	No	1	—
Q3 2009	1,288	—	—	101.79	—	No	1	(1)
Q4 2009	1,288	—	—	101.79	—	No	1	(2)
Q1 2010	1,710	—	—	107.86	—	No	(3)	(2)
Q2-Q4 2010	5,225	—	—	107.86	—	No	(8)	(12)
2011	3,650	—	—	185.00	—	No	36	(3)
2012	3,660	—	—	185.00	—	No	37	(4)
Total Oil							<u>65</u>	<u>33</u>
Total Natural Gas and Oil							<u>\$ 558</u>	<u>\$ 1,481</u>

(a) This includes options to extend an existing swap for an additional 12 months, one for 40,000 mmbtu/day at \$11.35/mmbtu and the other at 50,000 mmbtu/day at \$8.73/mmbtu, callable by the counterparty in December 2009 and March 2010, respectively.

(b) We assumed certain liabilities related to open derivative positions in connection with our acquisition of Columbia Natural Resources, LLC in November 2005. In accordance with SFAS 141, these derivative positions were recorded at fair value in the purchase price allocation as a liability of \$592 million (\$27 million liability remaining as of March 31, 2009). The recognition of the derivative liability and other assumed liabilities resulted in an increase in the total purchase price which was allocated to the assets acquired. Because of this accounting treatment, only cash settlements for changes in fair value subsequent to the acquisition date for the derivative positions assumed result in adjustments to our natural gas and oil revenues upon settlement. For example, if the fair value of the derivative positions assumed does not change, then upon the sale of the underlying production and corresponding settlement of the derivative positions, cash would be paid to the counterparties and there would be no adjustment to natural gas and oil revenues related to the derivative positions. If, however, the actual sales price is different from the price assumed in the original fair value calculation, the difference would be reflected as either a decrease or increase in natural gas and oil revenues, depending upon whether the sales price was higher or lower, respectively, than the prices assumed in the original fair value calculation. For accounting purposes, the net effect of these acquired hedges is that we hedged the production volumes at market prices on the date of our acquisition of CNR.

Pursuant to Statement of Financial Accounting Standards No. 149, *Amendment of SFAS 133 on Derivative Instruments and Hedging Activities*, the derivative instruments assumed in connection with the CNR acquisition are deemed to contain a significant financing element and all cash flows associated with these positions are reported as financing activity in the statement of cash flows for the periods in which settlement occurs.

(c) Included in Other Collars for 2009, 2010, 2011 and 2012-2017 are 81,445 bbtu, 25,370 bbtu, 3,650 bbtu and 21,920 bbtu of collars which include written put options with weighted average prices of \$5.28, \$5.24, \$6.00 and \$6.00, respectively which limit the counterparty's exposure.

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To mitigate our exposure to the fluctuation in prices of diesel fuel, we have entered into diesel swaps from April 2009 to March 2010 for a total of 41,475,000 gallons with an average fixed price of \$1.60 per gallon. The fair value of these swaps as of March 31, 2009 was a liability of \$3 million.

We have established the fair value of our derivative instruments utilizing established index prices, volatility curves and discount factors. These estimates are compared to our counterparty values for reasonableness. Derivative transactions are also subject to the risk that counterparties will be unable to meet their obligations. Such non-performance risk is considered in the valuation of our derivative instruments, but to date has not had a material impact on the values of our derivatives. The values we report in our financial statements are as of a point in time and subsequently change as these estimates are revised to reflect actual results, changes in market conditions and other factors.

Based upon the market prices at March 31, 2009, we expect to transfer approximately \$640 million (net of income taxes) of the gain included in the balance in accumulated other comprehensive income to earnings during the next 12 months in the related month of production. All transactions hedged as of March 31, 2009 are expected to mature by December 31, 2022.

Additional information concerning the fair value of our natural gas and oil derivative instruments is as follows:

	2009
	(\$ in millions)
Fair value of contracts outstanding, as of January 1	\$ 1,306
Change in fair value of contracts	1,030
Fair value of contracts when entered into	(77)
Contracts realized or otherwise settled	(519)
Fair value of contracts when closed	(259)
Fair value of contracts outstanding, as of March 31	<u>\$ 1,481</u>

The change in the fair value of our derivative instruments since January 1, 2009 resulted from new contracts entered into, the settlement of derivatives for a realized gain (loss), as well as a decrease in natural gas prices. Derivative instruments reflected as current in the consolidated balance sheet represent the estimated fair value of derivative instrument settlements scheduled to occur over the subsequent twelve-month period based on market prices for natural gas and oil as of the consolidated balance sheet date. The derivative settlement amounts are not due and payable until the month in which the related underlying hedged transaction occurs.

Interest Rate Risk

The table below presents principal cash flows and related weighted average interest rates by expected maturity dates.

	Years of Maturity						
	2009	2010	2011	2012	2013	Thereafter	Total
Liabilities:							
Long-term debt – fixed rate ^(a)	\$ —	\$ —	\$ —	\$ —	\$ 864	\$ 10,646	\$ 11,510
Average interest rate	—	—	—	—	7.6%	6.0%	6.1%
Long-term debt – variable rate	\$ —	\$ —	\$ —	\$ 2,225	\$ 164	\$ —	\$ 2,389
Average interest rate	—	—	—	1.5%	2.8%	—	1.6%

(a) This amount does not include the discount included in long-term debt of (\$1.129) billion and interest rate derivatives of \$163 million.

Changes in interest rates affect the amount of interest we earn on our cash, cash equivalents and short-term investments and the interest rate we pay on borrowings under our revolving bank credit facilities. All of our other long-term indebtedness is fixed rate and, therefore, does not expose us to the risk of earnings or cash flow loss due to changes in market interest rates. However, changes in interest rates do affect the fair value of our debt.

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Interest Rate Derivatives

We use interest rate derivatives to mitigate our exposure to volatility in interest rates related to our senior notes and credit facilities. For interest rate derivative instruments designated as fair value hedges (in accordance with SFAS 133), changes in fair value are recorded on the condensed consolidated balance sheets as assets (liabilities), and the debt's carrying value amount is adjusted by the change in the fair value of the debt subsequent to the initiation of the derivative. Changes in the fair value of non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the condensed consolidated statements of operations as unrealized gains (losses) within interest expense.

Gains or losses from certain derivative transactions are reflected as adjustments to interest expense on the condensed consolidated statements of operations. Realized gains (losses) included in interest expense were \$7 million and a nominal amount in the Current Quarter and the Prior Quarter, respectively. Unrealized gains (losses) included in interest expense were \$45 million and (\$13) million in the Current Quarter and the Prior Quarter, respectively.

As of March 31, 2009, the following interest rate derivatives were outstanding:

	Notional Amount (\$ in millions)	Weighted Average Fixed Rate	Weighted Average Floating Rate ^(b)	Fair Value Hedge	Net Premiums (\$ in millions)	Fair Value (\$ in millions)
Fixed to Floating Interest Rate:						
Swaps						
January 2008 – November 2020	\$ 500	6.875%	6 mL plus 230 bp	Yes	\$ —	\$ 66
April 2008 – August 2015	\$ 250	6.50%	6 mL plus 240 bp	No	\$ —	\$ 20
Call Options						
May 2009 – August 2009	\$ 750	6.75%	6 mL plus 233 bp	No	\$ 9	\$ (77)
Floating to Fixed Interest Rate:						
Swaps						
August 2007 – July 2012	\$ 1,375	4.20%	1 - 6 mL	No	\$ —	\$ (47)
Collars ^(a)						
August 2007 – August 2010	\$ 250	4.52%	6 mL	No	\$ —	\$ (10)
Swaption						
August 2009	\$ 500	2.56%	1 mL	No	\$ 5	\$ (12)
					\$ 14	\$ (60)

(a) The collars have ceiling and floor fixed interest rates of 5.37% and 4.52%, respectively.

(b) Month LIBOR has been abbreviated “mL” and basis points has been abbreviated “bp”.

In the Current Quarter, we closed interest rate derivatives for gains totaling \$12 million of which \$7 million was recognized in interest expense. The remaining \$5 million was from interest rate derivatives designated as fair value hedges and the settlement amounts received will be amortized as a reduction to interest expense over the remaining term of the related senior notes ranging from eight to nine years.

Foreign Currency Derivatives

On December 6, 2006, we issued €600 million of 6.25% Euro-denominated Senior Notes due 2017. Concurrent with the issuance of the Euro-denominated senior notes, we entered into a cross currency swap to mitigate our exposure to fluctuations in the euro relative to the dollar over the term of the notes. Under the terms of the cross currency swap, on each semi-annual interest payment date, the counterparties pay Chesapeake €19 million and Chesapeake pays the counterparties \$30 million, which yields an annual dollar-equivalent interest rate of 7.491%. Upon maturity of the notes, the counterparties will pay Chesapeake €600 million and Chesapeake will pay the counterparties \$800 million. The terms of the cross currency swap were based on the dollar/euro exchange rate on the issuance date of \$1.3325 to €1.00. Through the cross currency swap, we have eliminated any potential variability in Chesapeake's expected cash flows related to changes in foreign exchange rates and therefore the swap qualifies as a cash flow hedge under SFAS 133. The euro-denominated debt is recorded in notes payable (\$796 million at March 31, 2009) using an exchange rate of \$1.3261 to €1.00. The fair value of the cross currency swap is recorded on the condensed consolidated balance sheet as a liability of \$74 million at March 31, 2009.

ITEM 4. *Controls and Procedures*

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed by Chesapeake in reports filed or submitted by it under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of Chesapeake management, including Chesapeake's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Chesapeake's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15(b). Based upon that evaluation our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

No changes in Chesapeake's internal control over financial reporting occurred during the Current Quarter that have materially affected, or are reasonably likely to materially affect, Chesapeake's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

On February 25, 2009, a putative class action was filed in the U.S. District Court for the Southern District of New York against the company and certain of its officers and directors along with certain underwriters of the company's July 2008 common stock offering. The complaint alleges that the registration statement for the offering contained material misstatements and omissions and seeks damages under Sections 11, 12 and 15 of the Securities Act of 1933 of an unspecified amount and rescission. A derivative action was also filed in the District Court of Oklahoma County, Oklahoma on March 10, 2009 against the company's directors and certain of its officers alleging breaches of fiduciary duties relating to the disclosure matters alleged in securities case. Two additional derivative actions were filed in the District Court of Oklahoma County, Oklahoma on April 28 and May 7, 2009 against the company's directors alleging breaches of fiduciary duties relating to executive compensation of the company's CEO and alleged insider trading, among other things, and seeking unspecified damages, equitable relief and disgorgement. Chesapeake is named as a nominal defendant in these derivative actions. On March 26, 2009, a shareholder filed a petition in the District Court of Oklahoma County, Oklahoma seeking to compel inspection of company books and records relating an executive compensation matter. It is inherently difficult to predict the outcome of litigation, and these cases are all in preliminary stages.

Chesapeake is currently involved in various disputes incidental to its business operations. Certain legal actions brought by royalty owners are discussed in Item 3 of our 2008 Form 10-K. Reference also is made to "Litigation" in Note 3 of the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q, which is incorporated herein by reference. Management is of the opinion that the final resolution of currently pending or threatened litigation incidental to its business is not likely to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A. Risk Factors

Our business has many risks. Factors that could materially adversely affect our business, financial condition, operating results or liquidity and the trading price of our common stock, preferred stock or senior notes are described under "Risk Factors" in Item 1A of our 2008 form 10-K. This information should be considered carefully, together with other information in this report and other reports and materials we file with the Securities and Exchange Commission.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information about repurchases of our common stock during the three months ended March 31, 2009:

<u>Period</u>	<u>Total Number of Shares Purchased(a)</u>	<u>Average Price Paid Per Share (a)</u>	<u>Total Number Of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs(b)</u>
January 1, 2009 through January 31, 2009	692,779	\$ 17.24	—	—
February 1, 2009 through February 28, 2009	19,535	15.92	—	—
March 1, 2009 through March 31, 2009	10,941	17.16	—	—
Total	723,255	\$ 17.20	—	—

- (a) Includes the surrender to the company of shares of common stock to pay withholding taxes in connection with the vesting of employee restricted stock.
- (b) We make matching contributions to our 401(k) plan and deferred compensation plan using Chesapeake common stock which is held in treasury or is purchased by the respective plan trustees in the open market. The plans contain no limitation on the number of shares that may be purchased for purposes of company contributions.

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On March 31, 2009, we converted all outstanding shares of our 4.125% Cumulative Convertible Preferred Stock into Chesapeake common stock. On the conversion date, 3,033 shares of the convertible preferred stock were converted into 182,887 shares of common stock, plus the right to receive cash in lieu of fractional shares. The shares of common stock issued in the conversion were issued pursuant to the terms of the Certificate of Designation for the convertible preferred stock without any investment decision required of the holders and thus did not constitute a "sale" within the meaning of the Securities Act of 1933, as amended. Further, since the shares of common stock were issued solely pursuant to the terms of conversion of the convertible preferred stock and no commission or other remuneration was paid or given directly or indirectly for soliciting the conversion, the common shares are securities included in the exemption from registration provided by Section 3(a)(9) of the Securities Act.

Certain of our employees have purchased shares of our common stock in the 401(k) plan maintained by the company which were not registered under the Securities Act of 1933. These include 252,301 shares in the Chesapeake 401(k) plan which exceeded the number of shares previously registered under Form S-8 registration statements for the plan. Plan participants purchased the shares at prices ranging from \$10.319 to \$20.01 per share between November 2008 and February 2009. All such shares were acquired by the trustee of the plan on behalf of participants through open market purchases, and the company received no proceeds from these transactions. We filed a registration statement on Form S-8 to increase the shares of Chesapeake common stock registered for the Chesapeake 401(k) plan on February 25, 2009.

ITEM 3. *Defaults Upon Senior Securities*

Not applicable.

ITEM 4. *Submission of Matters to a Vote of Security Holders*

Not applicable.

ITEM 5. *Other Information*

Not applicable.

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ITEM 6. Exhibits

The following exhibits are filed as a part of this report:

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by Reference</u>				<u>Filed Herewith</u>
		<u>Form</u>	<u>SEC File Number</u>	<u>Exhibit</u>	<u>Filing Date</u>	
3.1.1	Chesapeake's Restated Certificate of Incorporation, as amended.	10-Q	001-13726	3.1.1	08/09/2006	
3.1.3	Certificate of Designation of 5% Cumulative Convertible Preferred Stock (Series 2005B).	10-Q	001-13726	3.1.4	11/10/2008	
3.1.4	Certificate of Designation of 5% Cumulative Convertible Preferred Stock (Series 2005), as amended.	S-8	333-151762	4.1.6	06/18/2008	
3.1.5	Certificate of Designation of 4.5% Cumulative Convertible Preferred Stock.	10-Q	001-13726	3.1.6	08/11/2008	
3.1.6	Certificate of Designation of 6.25% Mandatory Convertible Preferred Stock, as amended.	10-K	001-13726	3.1.7	02/29/2008	
3.2	Chesapeake's Amended and Restated Bylaws.	8-K	001-13726	3.1	11/17/2008	
4.4.1	Fourth Amendment dated as of March 31, 2009 to Seventh Amended and Restated Credit Agreement, dated as of November 2, 2007, among Chesapeake Energy Corporation, as the Company, Chesapeake Exploration Limited Partnership and Chesapeake Appalachia, L.L.C., as Co-Borrowers, Union Bank of California, N.A., as Administrative Agent, The Royal Bank of Scotland, as Syndication Agent, and Bank of America, N.A., SunTrust Bank and BNP Paribas, as Co-Documentation Agents, and the several lenders from time to time parties thereto.					X
4.18	Indenture dated as of February 2, 2009 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors, and the Bank of New York Mellon Trust Company N.A., as Trustee, with respect to the 9.50% senior notes due 2015.	8-K	001-13726	4.1	02/03/2009	
4.18.1	First Supplemental Indenture dated as of February 10, 2009 to Indenture dated as of February 2, 2009 among Chesapeake, as issuer, its subsidiaries signatory thereto, as Subsidiary Guarantors, and The Bank of New York Mellon Trust Company N.A., as Trustee, with respect to the 9.50% senior notes due 2015.	8-K	001-13726	4.2	02/17/2009	
4.18.2	Second Supplemental Indenture dated as of March 31, 2009 to Indenture dated as of February 2, 2009 among Chesapeake, as issuer, its subsidiaries signatory thereto, as Subsidiary Guarantors, and The Bank of New York Mellon Trust Company N.A., as Trustee, with respect to the 9.50% senior notes due 2015.					X
10.2.1	Employment Agreement dated as of March 1, 2009 between Aubrey K. McClendon and Chesapeake Energy Corporation.					X
12	Ratios of Earnings to Fixed Charges and Preferred Dividends.					X
31.1	Aubrey K. McClendon, Chairman and Chief Executive Officer, Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

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		<u>Form</u>	<u>SEC File Number</u>	<u>Exhibit</u>	
31.2	Marcus C. Rowland, Executive Vice President and Chief Financial Officer, Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Aubrey K. McClendon, Chairman and Chief Executive Officer, Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Marcus C. Rowland, Executive Vice President and Chief Financial Officer, Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHESAPEAKE ENERGY CORPORATION
(Registrant)

By: /s/ AUBREY K. MCCLENDON
 Aubrey K. McClendon
 Chairman of the Board and
 Chief Executive Officer

By: /s/ MARCUS C. ROWLAND
 Marcus C. Rowland
 Executive Vice President and
 Chief Financial Officer

Date: May 11, 2009

INDEX TO EXHIBITS

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3.1.5	Certificate of Designation of 4.5% Cumulative Convertible Preferred Stock.	10-Q	001-13726	3.1.6	08/11/2008	
3.1.6	Certificate of Designation of 6.25% Mandatory Convertible Preferred Stock, as amended.	10-K	001-13726	3.1.7	02/29/2008	
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4.18	Indenture dated as of February 2, 2009 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors, and the Bank of New York Mellon Trust Company N.A., as Trustee, with respect to the 9.50% senior notes due 2015.	8-K	001-13726	4.1	02/03/2009	
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10.2.1	Employment Agreement dated as of March 1, 2009 between Aubrey K. McClendon and Chesapeake Energy Corporation.					X
12	Ratios of Earnings to Fixed Charges and Preferred Dividends.					X
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**FOURTH AMENDMENT
TO
SEVENTH AMENDED AND RESTATED CREDIT AGREEMENT**

THIS FOURTH AMENDMENT TO SEVENTH AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is dated as of March 31, 2009 (but effective on the Effective Date, defined below in Section 3.1) by and among Chesapeake Energy Corporation (the "Company"), Chesapeake Exploration, L.L.C. ("Chesapeake Exploration") and Chesapeake Appalachia, L.L.C. ("Chesapeake Appalachia"), and together with Chesapeake Exploration, collectively, "Co-Borrowers"), Union Bank, N.A., as Administrative Agent ("Agent"), the other agents named therein and the Lenders from time to time parties thereto ("Lenders").

WITNESSETH:

WHEREAS, Co-Borrowers, the Company, Agent and Lenders entered into that certain Seventh Amended and Restated Credit Agreement dated as of November 2, 2007 (as amended from time to time prior to the date hereof, the "Original Agreement"), for the purpose and consideration therein expressed, whereby Lenders became obligated to make loans and extend credit to Co-Borrowers as therein provided;

WHEREAS, Co-Borrowers, the Company, Agent and Lenders party hereto desire to amend the Original Agreement as set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Original Agreement, in consideration of the loans and extensions of credit that may hereafter be made by Lenders and the Issuing Lenders to Co-Borrowers, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I.

DEFINITIONS AND REFERENCES

Section 1.1. Terms Defined in the Original Agreement. Unless the context otherwise requires or unless otherwise expressly defined herein, the terms defined in the Original Agreement shall have the same meanings whenever used in this Amendment.

Section 1.2. Other Defined Terms. Unless the context otherwise requires, the following terms when used in this Amendment shall have the meanings assigned to them in this Section 1.2.

"Amendment" means this Fourth Amendment to Seventh Amended and Restated Credit Agreement.

"Credit Agreement" means the Original Agreement as amended hereby.

"Effective Date" has the meaning given to such term in Section 3.1.

ARTICLE II.

AMENDMENTS

Section 2.1. Defined Terms.

(a) The definition of “Applicable Margin” in Section 1.1 of the Original Agreement is hereby amended in its entirety to read as follows:

““Applicable Margin”: for each Type of Revolving Loan, on any day, the rate per annum set forth at the appropriate intersection at the relevant column heading below based on the Applicable Rating Level as of the close of business on the immediately preceding Business Day:

<u>Applicable Rating Level</u>	<u>Base Rate Loans</u>	<u>Eurodollar Loans</u>
Level I	0.750%	2.250%
Level II	0.500%	2.000%
Level III	0.250%	1.750%
Level IV	0.125%	1.625%
Level V	0.000%	1.500%”

(b) The definition of “Commitment Fee Rate” in Section 1.1 of the Original Agreement is hereby amended in its entirety to read as follows:

““Commitment Fee Rate”: on any day, a rate per annum equal to 0.500%.”

(c) The definition of “Consolidated Total Capitalization” in Section 1.1 of the Original Agreement is hereby amended in its entirety to read as follows:

““Consolidated Total Capitalization”: Consolidated Indebtedness plus stockholders’ equity of the Group Members as determined on a consolidated basis in accordance with GAAP; excluding, however, the stockholder’s equity of any Group Member attributable to such Group Member’s ownership of equity interests in any Unrestricted Subsidiary; provided, however, that all calculations of Consolidated Total Capitalization beginning December 31, 2008 shall exclude the effects of any write down of oil or gas assets which is required under Rule 4-10 (Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975) of Regulation S-X, promulgated by SEC regulation, or by the equivalent write down required by GAAP.”

Section 2.2. Financial Condition Covenants. Section 7.1(a) of the Original Agreement is hereby amended in its entirety to read as follows:

“(a)Consolidated Indebtedness to Total Capitalization Ratio. Permit the ratio of (i) Consolidated Indebtedness to (ii) Consolidated Total Capitalization at any time (x) prior to the Collateral Release Date, to be greater than 0.70 to 1.0 or (y) after the Collateral Release Date, to be greater than 0.65 to 1.0. The portion of any reduction in Consolidated Total Capitalization that results from non-cash write downs of assets related to changes in accounting practices (whether or not required under GAAP), shall not be effective for purposes of this Section 7.1(a) until 60 days after such non-cash write down is reflected on financial statements delivered pursuant to Section 6.1(a) or (b).”

ARTICLE III.

CONDITIONS OF EFFECTIVENESS; CLOSING

Section 3.1. Effective Date. This Amendment shall become effective on the date (the "Effective Date") when Agent shall have received:

(a) duly executed and delivered in form and substance satisfactory to Agent, all of the following:

- (i) this Amendment duly executed by Co-Borrowers, the Company, Agent, and Majority Lenders;
- (ii) the Consent Agreement attached hereto duly executed by all Subsidiary Guarantors;
- (iii) such other supporting documents as the Agent may reasonably request.

(b) for the account of each Lender (other than a Defaulting Lender) who executes this Amendment on or before the Effective Date, an amendment fee equal to 0.10% of such Lender's Revolving Percentage of the current Total Revolving Commitments.

ARTICLE IV.

REPRESENTATIONS AND WARRANTIES

Section 4.1. Representations and Warranties of Co-Borrowers. In order to induce each Lender to enter into this Amendment, the Company and Co-Borrowers represent and warrant to Agent and to each Lender that:

(a) The representations and warranties contained in Section 4 of the Original Agreement are true and correct at and as of the time of the effectiveness hereof, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties are true and correct as of such earlier date.

(b) The Company and Co-Borrowers are duly authorized to execute and deliver this Amendment and are and will continue to be duly authorized to borrow monies and to perform their respective obligations under the Credit Agreement. The Company and Co-Borrowers

have duly taken all corporate or limited liability company action necessary to authorize the execution and delivery of this Amendment and to authorize the performance of the obligations of the Company and Co-Borrowers hereunder.

(c) The execution and delivery by each of the Company and Co-Borrowers of this Amendment, the performance by each of the Company and Co-Borrowers of its obligations hereunder and the consummation of the transactions contemplated hereby do not and will not conflict with any provision of law, statute, rule or regulation or of the certificate of incorporation or organization, bylaws, or agreement of limited liability company of the Company or either of the Co-Borrowers (as applicable), or of any material agreement, judgment, license, order or permit applicable to or binding upon the Company or either of the Co-Borrowers, or result in the creation of any lien, charge or encumbrance upon any assets or properties of the Company or either of the Co-Borrowers. Except for those which have been obtained, no consent, approval, authorization or order of any court or governmental authority or third party is required in connection with the execution and delivery by the Company and Co-Borrowers of this Amendment or to consummate the transactions contemplated hereby.

(d) When duly executed and delivered, each of this Amendment and the Credit Agreement will be a legal and binding obligation of the Company and Co-Borrowers, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or similar laws of general application relating to the enforcement of creditors' rights and by equitable principles of general application.

(e) The audited annual consolidated financial statements of the Company dated as of December 31, 2008 fairly present the consolidated financial position at such date and the consolidated statement of operations and the changes in consolidated financial position for the period ending on such date for the Company. Copies of such financial statements have heretofore been delivered to each Lender. Since such date no material adverse change has occurred in the financial condition or businesses or in the consolidated financial condition or businesses of the Company.

ARTICLE V.

MISCELLANEOUS

Section 5.1. Ratification of Agreements. The Original Agreement as hereby amended and each of the Security Documents is hereby ratified and confirmed in all respects. Each Loan Party affirms that the terms of the Security Documents secure, and shall continue to secure, all of the Obligations, after giving effect to this Amendment. Any reference to the Credit Agreement in any Loan Document shall be deemed to be a reference to the Original Agreement as hereby amended. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Lenders under the Credit Agreement, the Notes, or any other Loan Document nor constitute a waiver of any provision of the Credit Agreement, the Notes or any other Loan Document.

Section 5.2. Survival of Agreements. All representations, warranties, covenants and agreements of the Company and Co-Borrowers herein shall survive the execution and delivery of

this Amendment and the performance hereof, including without limitation the making or granting of the Loans, and shall further survive until all of the Obligations are paid in full. All statements and agreements contained in any certificate or instrument delivered by the Company, Co-Borrowers or any Subsidiary Guarantor hereunder or under the Credit Agreement to any Lender shall be deemed to constitute representations and warranties by, and/or agreements and covenants of, such Loan Party under this Amendment and under the Credit Agreement.

Section 5.3. Loan Documents. This Amendment is a Loan Document, and all provisions in the Credit Agreement pertaining to Loan Documents apply hereto.

Section 5.4. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Texas and any applicable laws of the United States of America in all respects, including construction, validity and performance.

Section 5.5. Counterparts; Fax. This Amendment may be separately executed in counterparts and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same Amendment. This Amendment may be validly executed by facsimile or other electronic transmission.

THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS OF THE PARTIES.

[The remainder of this page intentionally left blank. Signature pages follow.]

IN WITNESS WHEREOF, this Amendment is executed as of the date first above written.

CHESAPEAKE ENERGY CORPORATION

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer and Senior Vice President

CHESAPEAKE EXPLORATION, L.L.C.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer and Senior Vice President

CHESAPEAKE APPALACHIA, L.L.C.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer and Senior Vice President

UNION BANK, N.A.,
as Administrative Agent, as Swing Line Lender, as an Issuing
Lender and as a Lender

By: /s/ Randall L. Osterberg
Name: Randall L. Osterberg
Title: Sr. Vice President – US Marketing Manager

THE ROYAL BANK OF SCOTLAND plc, as
Syndication Agent, as an Issuing Lender and as a
Lender

By: /s/ Lucy Walker
Name: Lucy Walker
Title: Vice President

BNP PARIBAS, as Co-Documentation Agent and as a Lender

By: /s/ Richard Hawthorne
Name: Richard Hawthorne
Title: Director

By: /s/ Edward Pak
Name: Edward Pak
Title: Vice President

BANK OF AMERICA, N.A., as Co-Documentation Agent and
as a Lender

By: /s/ Ronald E. McKaig
Name: Ronald E. McKaig
Title: Senior Vice President

SUNTRUST BANK, as Co-Documentation Agent and as a
Lender

By: /s/ Carmen Malizia
Name: Carmen Malizia
Title: Vice President

CALYON NEW YORK BRANCH, as a Lender

By: /s/ Michael Willis
Name: Michael Willis
Title: Managing Director

By: /s/ Dennis Petito
Name: Dennis Petito
Title: Managing Director

FORTIS CAPITAL CORP., as a Lender

By: /s/ Scott Myatt
Name: Scott Myatt
Title: Director

By: /s/ Ilene Fowler
Name: Ilene Fowler
Title: Director

WACHOVIA BANK, NATIONAL ASSOCIATION, as a
Lender

By: /s/ Henry R. Biedrzycki
Name: Henry R. Biedrzycki
Title: Director

WELLS FARGO BANK, N.A., as a Lender

By: /s/ Dustin S. Hansen
Name: Dustin S. Hansen
Title: Vice President

BANK OF SCOTLAND plc, as a Lender

By: /s/ Julia R. Franklin
Name: Julia R. Franklin
Title: Assistant Vice President

CITICORP USA, INC., as a Lender

By: /s/ Amy Pincu
Name: Amy Pincu
Title: Vice President

BMO CAPITAL MARKETS FINANCING, INC., as a
Lender

By: /s/ James Whitmore
Name: James Whitmore
Title: Managing Director

THE BANK OF NOVA SCOTIA, as a Lender

By: /s/ David Mills
Name: David Mills
Title: Managing Director

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Bruce E. Hernandez
Name: Bruce E. Hernandez
Title: Vice President

BARCLAYS BANK PLC, as a Lender

By: /s/ Maria Lund
Name: Maria Lund
Title: Vice President

ABN AMRO BANK N.V., as a Lender

By: /s/ R. Scott Donaldson
Name: R. Scott Donaldson
Title: Director

By: /s/ Todd Vaubel
Name: Todd Vaubel
Title: Vice President

NATIXIS, as a Lender

By: /s/ Donovan C. Broussard
Name: Donovan C. Broussard
Title: Managing Director

By: /s/ Liana Tchernysheva
Name: Liana Tchernysheva
Title: Director

COMERICA BANK, as a Lender

By: /s/ Peter L. Sefzik
Name: Peter L. Sefzik
Title: Senior Vice President

BANK OF OKLAHOMA, N.A., as a Lender

By: /s/ Mike Weatherholdt
Name: Mike Weatherholdt
Title: Assistant Vice President

TORONTO DOMINION (TEXAS) LLC, as a Lender

By: /s/ Debbi L. Brito
Name: Debbi L. Brito
Title: Authorized Signatory

PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Terrance O. McKinney
Name: Terrance O. McKinney
Title: Vice President

COMPASS BANK, as a Lender

By: /s/ Kathleen J. Bowen
Name: Kathleen J. Bowen
Title: Senior Vice President

RZB FINANCE LLC, as a Lender

By: /s/ John A. Valiska
Name: John A. Valiska
Title: First Vice President

By: /s/ Nicolas M. Moriatis
Name: Nicolas M. Moriatis
Title: Group Vice President – Controller

MIDFIRST BANK, as a Lender

By: /s/ Steve A. Griffin
Name: Steve A. Griffin
Title: Senior Vice President

ARVEST BANK, as a Lender

By: /s/ Cindy Batt
Name: Cindy Batt*
Title: Sr. Vice President

* Arvest Bank consents only to the following:

Section 2.1. (a) Applicable Margin amendment
Section 2.1. (b) Commitment Fee Rate amendment

Arvest Bank acknowledges the Majority Lenders' decision regarding

Section 2.1. (c) amended definition of Consolidated Total Capitalization and
Section 2.2 Financial Condition Covenants amended Consolidated Indebtedness to Total Capitalization Ratio.

MORGAN STANLEY BANK, as a Lender

By: /s/ Melissa James
Name: Melissa James
Title: Authorized Signatory

JPMORGAN CHASE BANK, N.A., as a Lender

By: /s/ Robert W. Traband
Name: Robert W. Traband
Title: Executive Director

CREDIT SUISSE, CAYMAN ISLANDS BRANCH, as a
Lender

By: /s/ Nupur Kumar
Name: Nupur Kumar
Title: Vice President

By: /s/ Shaheen Malik
Name: Shaheen Malik
Title: Vice President

UBS AG, Stamford Branch, as a Lender

By: /s/ Irja R. Otsa
Name: Irja R. Otsa
Title: Associate Director

By: /s/ Marie Haddad
Name: Marie Haddad
Title: Associate Director

DEUTSCHE BANK TRUST COMPANY
AMERICAS, as a Lender

By: /s/ Susan LeFevre
Name: Susan LeFevre
Title: Managing Director

By: /s/ Erin Morrissey
Name: Erin Morrissey
Title: Vice President

GOLDMAN SACHS BANK USA, as a Lender

By: /s/ Andrew Caditz
Name: Andrew Caditz
Title: Authorized Signatory

**LEHMAN BROTHERS COMMERCIAL
BANK, as a Lender**

By: /s/ Gary Murray
Name: Gary Murray
Title: Chief Credit Officer

GOLDMAN SACHS CREDIT PARTNERS L.P.,
as a Lender

By: /s/ Andrew Caditz
Name: Andrew Caditz
Title: Authorized Signatory

UMB BANK, N.A., as a Lender

By: /s/ Mary Wolf
Name: Mary Wolf
Title: SVP

ROYAL BANK OF CANADA, as a Lender

By: /s/ Don J. McKinnerney
Name: Don J. McKinnerney
Title: Authorized Signatory

CONSENT AND AGREEMENT

By its execution below, each of the undersigned hereby (i) consents to the provisions of this Amendment and the transactions contemplated herein, (ii) ratifies and confirms the Fifth Amended and Restated Guarantee Agreement dated as of November 2, 2007 made by it for the benefit of Administrative Agent and Lenders (as modified by certain Assumption Agreements, if any) and the other Loan Documents executed by it pursuant to the Credit Agreement (or any prior amendment or supplement to the Credit Agreement), (iii) agrees that all of its respective obligations and covenants thereunder shall remain unimpaired by the execution and delivery of this Amendment and the other documents and instruments executed in connection herewith, and (iv) agrees that the Fifth Amended and Restated Guarantee Agreement and such other Loan Documents shall remain in full force and effect.

CHESAPEAKE ENERGY CORPORATION

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer and Senior Vice President

CHESAPEAKE OPERATING, INC.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer and Senior Vice President

**CHESAPEAKE ENERGY LOUISIANA CORPORATION
CHESAPEAKE ENERGY MARKETING, INC.
GENE D. YOST & SON, INC.
DIAMOND Y ENTERPRISE, INCORPORATED**

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby, Treasurer, on behalf of each
of the foregoing corporations

HODGES TRUCKING COMPANY, L.L.C.
CARMEN ACQUISITION, L.L.C.
CHESAPEAKE ROYALTY, L.L.C.
GOTHIC PRODUCTION, L.L.C.
MC MINERAL COMPANY, L.L.C.
CHESAPEAKE LAND DEVELOPMENT COMPANY,
L.L.C.
HAWG HAULING & DISPOSAL, LLC
CHK HOLDINGS, L.L.C.
MIDCON COMPRESSION, L.L.C.
NOMAC DRILLING, L.L.C.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby, Treasurer, on behalf of each of the
foregoing limited liability companies

CHESAPEAKE LOUISIANA, L.P.

By: Chesapeake Operating, Inc., its General Partner

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer and Senior Vice President

CHESAPEAKE APPALACHIA, L.L.C.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer

CHESAPEAKE EXPLORATION, L.L.C.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer

CHESAPEAKE-CLEMENTS ACQUISITION, L.L.C.
COMPASS MANUFACTURING, L.L.C.
GREAT PLAINS OILFIELD RENTAL, L.L.C.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby,
Treasurer, on behalf of
each of the foregoing
limited liability
companies

CHESAPEAKE ENERGY CORPORATION

and

the Subsidiary Guarantors named herein

9.50% SENIOR NOTES DUE 2015

SECOND SUPPLEMENTAL INDENTURE

DATED AS OF MARCH 31, 2009

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

as Trustee

THIS SECOND SUPPLEMENTAL INDENTURE, dated as of March 31, 2009, is among Chesapeake Energy Corporation, an Oklahoma corporation (the "Company"), each of the parties identified under the caption "Subsidiary Guarantors" on the signature page hereto (the "Subsidiary Guarantors") and The Bank of New York Mellon Trust Company, N.A., as Trustee.

RECITALS

WHEREAS, the Company, the Subsidiary Guarantors a party thereto and the Trustee entered into an Indenture, dated as of February 2, 2009, (the "Indenture"), pursuant to which the Company has originally issued \$1,000,000,000 in principal amount of 9.50% Senior Notes due 2015 (the "Notes"); and

WHEREAS, Section 9.01(3) of the Indenture provides that the Company, the Subsidiary Guarantors and the Trustee may amend or supplement the Indenture without notice to or consent of any Holder to reflect the addition of any Subsidiary Guarantor, as provided for in the Indenture;

WHEREAS, the Board of Directors of the Company has designated Chesapeake-Clements Acquisition, L.L.C., an Oklahoma limited liability company ("Clements"), Compass Manufacturing, L.L.C., an Oklahoma limited liability company ("Compass"), and Great Plains Oilfield Rental, L.L.C., an Oklahoma limited liability company ("Great Plains"), as Subsidiary Guarantors of the Company; and

WHEREAS, all acts and things prescribed by the Indenture, by law and by the charter and the bylaws (or comparable constituent documents) of the Company, of the Subsidiary Guarantors and of the Trustee necessary to make this Second Supplemental Indenture a valid instrument legally binding on the Company, the Subsidiary Guarantors and the Trustee, in accordance with its terms, have been duly done and performed;

NOW, THEREFORE, to comply with the provisions of the Indenture and in consideration of the above premises, the Company, the Subsidiary Guarantors and the Trustee covenant and agree for the equal and proportionate benefit of the respective Holders of the Notes as follows:

ARTICLE 1

Section 1.01. This Second Supplemental Indenture is supplemental to the Indenture and does and shall be deemed to form a part of, and shall be construed in connection with and as part of, the Indenture for any and all purposes.

Section 1.02. This Second Supplemental Indenture shall become effective immediately upon its execution and delivery by each of the Company, the Subsidiary Guarantors and the Trustee.

ARTICLE 2

Section 2.01. From this date, in accordance with Section 10.03 of the Indenture and by executing this Second Supplemental Indenture, Clements, Compass and Great Plains are subject to the provisions of the Indenture as Subsidiary Guarantors to the extent provided for in Article Ten thereunder.

ARTICLE 3

Section 3.01. Except as specifically modified herein, the Indenture and the Notes are in all respects ratified and confirmed (*mutatis mutandis*) and shall remain in full force and effect in accordance with their terms with all capitalized terms used herein without definition having the same respective meanings ascribed to them as in the Indenture.

Section 3.02. Except as otherwise expressly provided herein, no duties, responsibilities or liabilities are assumed, or shall be construed to be assumed, by the Trustee by reason of this Second Supplemental Indenture. This Second Supplemental Indenture is executed and accepted by the Trustee subject to all the terms and conditions set forth in the Indenture with the same force and effect as if those terms and conditions were repeated at length herein and made applicable to the Trustee with respect hereto. The Trustee makes no representations as to the validity or sufficiency of this Second Supplemental Indenture. The recitals and statements herein are deemed to be those of the Company and Subsidiary Guarantors and not of the Trustee.

Section 3.03. The Company hereby notifies the Trustee that Clements, Compass and Great Plains have been designated by the Board of Directors of the Company as Subsidiary Guarantors (as that term is defined in the Indenture).

Section 3.04. THE LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE AND ENFORCE THIS SECOND SUPPLEMENTAL INDENTURE.

Section 3.05. The parties may sign any number of copies of this Second Supplemental Indenture. Each signed copy shall be an original, but all of such executed copies together shall represent the same agreement.

[NEXT PAGE IS SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed, all as of the date second written above.

/s/ Jennifer M. Grigsby

Jennifer M. Grigsby

**Senior Vice President, Treasurer & Corporate Secretary of
the Company and of the Subsidiaries listed below:**

Corporate Subsidiaries:

CHESAPEAKE ENERGY LOUISIANA CORPORATION
CHESAPEAKE ENERGY MARKETING, INC.
DIAMOND Y ENTERPRISE, INCORPORATED
GENE D. YOST & SON, INC.

CHESAPEAKE OPERATING, INC.,
On behalf of itself and, as general partner, the following limited
partnership:

CHESAPEAKE LOUISIANA, L.P.

Limited Liability Company Subsidiaries:

CARMEN ACQUISITION, L.L.C.
CHESAPEAKE APPALACHIA, L.L.C.
CHESAPEAKE-CLEMENTS ACQUISITION, L.L.C.
CHESAPEAKE EXPLORATION, L.L.C.
CHESAPEAKE LAND DEVELOPMENT COMPANY, L.L.C.
CHESAPEAKE ROYALTY, L.L.C.
CHK HOLDINGS, L.L.C.,
COMPASS MANUFACTURING, L.L.C.
GOTHIC PRODUCTION, L.L.C.
GREAT PLAINS OILFIELD RENTAL, L.L.C.
HAWG HAULING & DISPOSAL, LLC
HODGES TRUCKING COMPANY, L.L.C.
MC MINERAL COMPANY, L.L.C.
MIDCON COMPRESSION, L.L.C.
NOMAC DRILLING, L.L.C.

TRUSTEE:

THE BANK OF NEW YORK MELLON TRUST COMPANY,
N.A., as Trustee

By: /s/Linda Garcia
Name: Linda Garcia
Title: Vice President

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THIRD AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

THIS AGREEMENT is made effective March 1, 2009, between CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), and AUBREY K. McCLENDON, an individual (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company and the Executive entered into that certain Second Amended and Restated Employment Agreement dated effective December 31, 2008 (the "Prior Agreement").

WHEREAS, the Board of Directors has determined that it is in the best interests of the Company to modify the Executive's employment arrangement to confirm the parties' course of dealing regarding EP Information (as hereafter defined) and the use of the EP Systems (as hereafter defined).

WHEREAS, the Company and the Executive desire to amend and restate the Prior Agreement in its entirety to incorporate the foregoing and other changes to the employment arrangement between the Company and the Executive.

NOW THEREFORE, in consideration of the mutual promises herein contained, the Company and the Executive agree as follows:

1. Employment. The Company hereby employs the Executive and the Executive hereby accepts such employment subject to the terms and conditions contained in this Agreement. The Executive is engaged as an employee of the Company and the Executive and the Company do not intend to create a joint venture, partnership or other relationship that might impose similar such fiduciary obligations on the Executive or the Company in the performance of this Agreement.

2. Executive's Duties. The Executive is employed on a full-time basis. Throughout the term of this Agreement, the Executive will use the Executive's best efforts and due diligence to assist the Company in the objective of achieving the most profitable operation of the Company and the Company's affiliated entities consistent with developing and maintaining a quality business operation.

- 2.1 Specific Duties. During the term of this Agreement the Executive: (a) will serve as Chairman of the Board and Chief Executive Officer for the Company; (b) will be nominated for election or appointed to serve as a director of the Company; (c) will be appointed as an officer of one (1) or more of the Company's subsidiaries; and (d) may be nominated for election or appointed to serve as a director of one (1) or more of the Company's subsidiaries. The Executive agrees to use the Executive's best efforts to perform all of the services required to fully and faithfully execute the offices

and positions to which the Executive is appointed and such other services as may be reasonably directed by the Board of Directors of the Company in accordance with this Agreement.

- 2.2 Modifications. The precise duties to be performed by the Executive may be extended or curtailed in the discretion of the Board of Directors of the Company. However, except for termination for Cause (as hereinafter defined under paragraph 6.1.2 of this Agreement), the failure of the Executive to be elected, be reelected or serve as a director of the Company during the term of this Agreement, the removal of the Executive as a member of the board of directors of the Company, the withdrawal of the designation of the Executive as Chairman of the Board and Chief Executive Officer of the Company or the assignment of the performance of duties incumbent on the foregoing offices to other persons without the prior written consent of the Executive will constitute termination without Cause by the Company.
- 2.3 Rules and Regulations. From time to time, the Company may issue policies and procedures applicable to employees and the Executive including an Employment Policies Manual. The Executive agrees to comply with such policies and procedures, except to the extent such policies are inconsistent with this Agreement. Such policies and procedures may be supplemented, modified, changed or adopted without notice in the sole discretion of the Company at any time. In the event of a conflict between such policies and procedures and this Agreement, this Agreement will control unless compliance with this Agreement will violate any law or regulation applicable to the Company or its affiliated entities. Any activity by the Executive that is expressly permitted by this Agreement will not violate such policies and procedures.
- 2.4 Stock Investment. The Executive agrees to hold shares of the Company's common stock having an aggregate Investment Value (as hereafter defined) greater than the designated percentage of the compensation paid to the Executive under paragraphs 4.1 and 4.2 of this Agreement during such calendar year. The designated percentage will be two hundred percent (200%) for calendar year 2009 and five hundred percent (500%) for the remaining term of this Agreement. Any shares of common stock acquired by the Executive prior to the date of this Agreement and still owned by the Executive during the term of this Agreement may be used to satisfy the requirement to own common stock including, without implied limitation, shares of common stock held by Chesapeake Investments, an Oklahoma Limited Partnership or owned beneficially through the Executive's retirement plans. For purposes of this paragraph, the "Investment Value" of each share of stock will be as follows: (a) for shares purchased in the open market, the price paid by the Executive for such shares; (b) for shares acquired through the exercise of stock options, the grant of restricted stock or the conversion of other securities other than through open market purchases, the fair market

value of the common stock on the date the option is exercised, the restricted stock vests, or the stock is acquired through the conversion of another security or the date such stock is otherwise acquired; and (c) for each share acquired prior to the date of this Agreement, the amount equal to the greater of (i) the amount determined under clause (a) or (b) as applicable, or (ii) the closing price for the Company's stock on the New York Stock Exchange (the "NYSE") on the date of this Agreement adjusted for subsequent stock splits. This paragraph will automatically become null and void without notice or action by either party if the Company's common stock ceases to be listed on the NYSE, the National Association of Securities Dealers Automated Quotation System or other national exchange. The Company has no obligation to sell to or to purchase from the Executive any of the Company's stock in connection with this paragraph 2.4 and has made no representations or warranties regarding the Company's stock, operations or financial condition.

3. Other Activities. Except for the activities (the "Permitted Activities") permitted under this paragraph or approved by the Board of Directors, the Executive will not: (a) engage in activities which require such substantial services on the part of the Executive that the Executive is unable to perform the duties assigned to the Executive in accordance with this Agreement; (b) serve as an officer or director of any publicly held entity; or (c) directly or indirectly invest in, participate in or acquire an interest in any oil and gas business, including, without limitation, (i) producing oil and gas, (ii) drilling, owning or operating oil and gas leases or wells, (iii) providing services or materials to the oil and gas industry, (iv) marketing or refining oil or gas, or (v) owning any interest in any corporation, partnership, company or entity which conducts any of the foregoing activities. The Executive is not restricted from maintaining or making investments, or engaging in other businesses, enterprises or civic, charitable or public service functions if such activities, investments, businesses or enterprises do not result in a violation of clauses (a) through (c) of this paragraph 3. Notwithstanding the foregoing, the Executive will be permitted to participate in the following activities and such activities will be deemed to be approved by the Company, if such activities are undertaken in strict compliance with this Agreement.

- 3.1 **Surface Interests and Gifts.** The foregoing restriction in clause (c) will not prohibit the ownership of (a) the interests in oil and gas where the Executive acquires, owns or previously owned the surface of the land covered in whole or in part by such interest in oil and gas and the ownership, operation, development or use of the interest in oil and gas is incidental to the ownership of the surface estate or (b) interests in oil and gas received by gift or inheritance. For purposes of this paragraph 3.1: (y) interests in oil and gas means any interest in oil and gas including, without implied limitation, any mineral interest, royalty interest, overriding royalty interest, working interest, net profits interest, production payment or similar interest in the production of oil and gas; and (z) the interests in oil and gas permitted to be owned under this paragraph 3.1 are not required to be acquired simultaneously with the acquisition of the surface estate, but may be acquired at any time the Executive owns any interest in the surface estate.

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- 3.2 Existing Interests. The Executive has in the past conducted oil and gas activities individually, through Chesapeake Investments, an Oklahoma Limited Partnership, and through other entities owned or controlled by the Executive (collectively, the “Executive Affiliates”). The Executive will be permitted to continue to conduct oil and gas activities (including participation in new wells) directly or through the Executive Affiliates, but only to the extent such activities are conducted with respect to oil and gas leases or interests in oil and gas which the Executive or Executive Affiliates (a) owned or had the right to acquire as of the date of this Agreement, (b) acquired or held in accordance with paragraph 3.1 of this Agreement or (c) acquired from the Company under the FWP Program (as hereinafter defined), prior employment agreements or any other written agreement between the Executive, the Company or the Company’s affiliated entities (collectively, the “Prior Interests”). To the extent Prior Interests or activities covered by this paragraph 3.2 are operated by the Company, the Executive agrees to pay any costs or expenses with respect to the Prior Interests in accordance with the terms of the Founder Well Participation Program (the “FWP Program”).
- 3.3 FWP Program. The Executive or the designated Founder Affiliate will be permitted to participate in the FWP Program in accordance with its terms. The parties hereto agree the FWP Program cannot be modified or amended without the prior written consent of the Board of Directors and the Executive.
- 3.4 Non Active Investments. The foregoing restriction in clause (c) of this paragraph 3 will not prohibit the following activities by the Executive or the Executive’s affiliates: (a) an investment in the securities of a publicly listed company; (b) investment or trading in commodities, currencies, financial instruments or other derivatives (including, without implied limitation, short positions, long positions or positions in options) whether on an exchange, by private contract or in the over the counter market; (c) an investment in non public entities which own de minimis passive interests in E&P Activities (as hereafter defined) which are incidental to such entity’s primary non E&P business activity; and (d) an investment in an investment fund, hedge fund, limited partnership or other passive investment entity (i) which does not actively engage in E&P Activities; and (ii) for which the Executive does not directly or indirectly provide input, advice or management to such entity, the sponsor of such entity or any portfolio company of such entity. For purposes of this Agreement the term E&P Activities means the specific activities listed in sub clauses (i) or (ii) of clause (c) of paragraph 3 of this Agreement.
- 3.5 Information Systems. Consistent with the parties’ course of dealing, intent and understanding, all records, communications, documents and other information (the “EP Information”) relating to the Executive’s Personal

Business including, without limitation, physical documents, electronic documents, electronic mail, electronic records, text messages and attachments of or to any of the foregoing (regardless of when created or by whom) are the exclusive property of the Executive and the Company waives any ownership of such EP Information. The Executive and the Company agree that the Executive maintains all rights to control access to the EP information and distribution of such EP Information inside or outside the Company. The Executive's Personal Business means the Executive's and the Executive's personal family members' personal affairs, legal advice, accounting, taxes, investments, and personal business activities outside of the Company (which with respect to the Executive do not violate the terms of this Agreement). The Company confirms and grants to the Executive through the date specified in paragraph 6.6 of this Agreement a nonexclusive license to use the Company's properties, plant and equipment, office facilities, handheld electronic devices, phone systems, computer systems, computer servers and email systems (together, the "EP Systems") for Executive Personal Business including the use of the foregoing to send, receive, store, delete and control the distribution of the EP Information. The Parties may from time to time develop mutually agreeable processes and procedures to identify, maintain and protect the confidentiality of the EP Information.

4. Executive's Compensation. The Company agrees to compensate the Executive as follows:

- 4.1 Base Salary. A base salary (the "Base Salary"), at an annual rate of not less than Nine Hundred Seventy-Five Thousand Dollars (\$975,000.00), will be paid to the Executive in equal bi-weekly installments, beginning January 1, 2009, and continuing during the term of this Agreement. The Executive agrees that the Base Salary will not exceed Nine Hundred Seventy-Five Thousand Dollars (\$975,000.00) prior to the Executive Termination Date (as hereafter defined).
- 4.2 Bonus. In addition to the Base Salary described in paragraph 4.1 of this Agreement, the Company may periodically pay bonus compensation to the Executive. Except as expressly provided in this Agreement, any bonus compensation will be awarded in the absolute discretion of the Company in such amounts and at such times as the Compensation Committee of the Board of Directors of the Company may determine. The cash bonuses to be paid by the Company under this paragraph for any calendar year during the term of this Agreement and prior to the Executive Termination Date will not exceed the Executive's cash bonus compensation for calendar year 2008, grants which approximate One Million Nine Hundred Fifty Thousand Dollars (\$1,950,000.00).

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- 4.3 Equity Compensation. In addition to the compensation set forth in paragraphs 4.1 and 4.2 of this Agreement, the Executive may periodically receive grants of stock options, restricted stock or other equity related awards from the Company's various equity compensation plans, subject to the terms and conditions thereof.
- 4.4 Benefits. The Company agrees to extend to the Executive retirement benefits, deferred compensation, reimbursement of reasonable expenditures for dues, travel and entertainment and any other benefits the Company provides to other executives or officers from time to time on the same terms as such benefits are provided to such individuals. The Company will also provide the Executive the opportunity to apply for coverage under the Company's medical, life and disability plans, if any. If the Executive is accepted for coverage under such plans, the Company will provide such coverage on the same terms as is customarily provided by the Company to the plan participants as modified from time to time. The Company may condition any such benefits on the Executive paying any amounts which the Company requires other employees to pay with respect to such benefits.
- 4.5 Vacation. The Executive will be entitled to take up to five (5) weeks of paid vacation each calendar year during the term of this Agreement. Except as provided in the Company's general employment policies or as otherwise provided in this Agreement, no additional compensation will be paid for failure to take vacation and no vacation may be carried forward from one calendar year to another.
- 4.6 Travel. For safety, security and efficiency the Executive will utilize aircraft owned, leased or chartered by the Company for business and personal use and will not be required to reimburse the Company for any cost related to such use. The Executive will: (a) not owe any additional amounts to the Company under this paragraph for guests or family members traveling with the Executive; and (b) pay all personal income taxes accruing as a result of the personal use of the Company's aircraft by the Executive and the Executive's immediate family members under this paragraph.
- 4.7 Accounting Support. The Executive will be permitted to utilize the EP Systems and the Company's personnel to provide accounting services, management services, records maintenance, tax advice, tax return preparation and other business services for the Executive's (and the Executive's immediate family members') personal businesses, investments and activities. Beginning January 1, 2009, the Executive agrees to pay to the Company as a partial reimbursement an amount equal to: (a) direct cash compensation for each Company employee primarily designated to provide services under this paragraph (consisting of cash salaries, cash bonuses, and the employer's portion of payroll taxes) multiplied by the percentage of the time such employee spends providing such services plus (b) as indirect

costs the amount for each employee under the foregoing clause (a) multiplied by a percentage determined by the compensation committee of the Board of Directors and approved by the Executive. Such amounts related to the provision of secretarial or general administrative support for the Executive will not be required to be reimbursed in whole or part under this paragraph.

- 4.8 2008 Incentive Award. The Company hereby grants to the Executive, effective as of the date of this Agreement, an incentive award in the amount of Seventy-five Million Dollars (\$75,000,000.00) to be used, applied and recouped in accordance with the terms of this paragraph (the "Incentive Award"). The amount of the Incentive Award, less any applicable federal and state tax withholding amounts, will be granted to the Executive as a deposit for credit against joint interest billings issued by the Company with respect to the Executive's interest in wells acquired through participation in the FWP Program, well participation provisions similar to the FWP Program under prior employment agreements between the Company and the Executive and the Prior Interests (the "IA JIB Credit"). The Executive may assign the IA JIB Credit to any Founder Affiliate (as defined in the FWP Program) subject to any conditions herein, may designate the application of the IA JIB Credit to all or part of any unpaid joint interest billing issued by the Company to the Executive or a Founder Affiliate and may not use the IA JIB Credit for any other purpose prior to December 31, 2014. Any unused portion of the IA JIB Credit existing on December 31, 2014, will be disbursed to the Executive on written request by the Executive. If, prior to the Executive Termination Date (as hereafter defined), the Executive is terminated by the Company for Cause in accordance with paragraph 6.1.2 of this Agreement or the Executive terminates this Agreement in violation of paragraph 6.2 of this Agreement, the IA JIB Credit will be recouped from the Executive by the Company as follows: (a) any of the IA JIB Credit that has not been applied to a joint interest billing as of the effective date of the foregoing termination will be automatically forfeited and no consideration will be paid or earned by the Executive as a result of such forfeiture; (b) the Executive will within one hundred eighty (180) days after the effective date of the foregoing termination pay to the Company in immediately available funds an amount equal to the lesser of the following (1) the aggregate amount of any IA JIB Credit applied to joint interest billings issued by the Company plus any federal or state taxes withheld by the Company for the benefit of the Executive from the Incentive Award or (2) the original Seventy-five Million Dollar (\$75,000,000.00) amount of the Incentive Award multiplied by a percentage equal to (i) the number of full calendar months remaining between the effective date of the foregoing termination and the Executive Termination Date, divided by (ii) sixty (60). The foregoing right of recoupment will only apply to a termination of this Agreement under paragraph 6.1.2 or a termination in violation of paragraph 6.2, each as expressly provided in the foregoing sentence, and will not apply to any other

termination of this Agreement including, without implied limitation, an Executive FC Termination (as hereafter defined) under paragraph 6.2 of this Agreement or any termination under paragraphs 6.3, 6.4 or 6.5.

- 4.9 Compensation Review. The compensation of the Executive will be reviewed not less frequently than semi-annually by the Compensation Committee of the Board of Directors of the Company. The compensation of the Executive prescribed in paragraph 4 of this Agreement (including benefits) may: (a) be increased at the discretion of the Compensation Committee of the Board of Directors of the Company except as expressly limited in paragraphs 4.1 and 4.2 of this Agreement and (b) not be reduced without the prior written consent of the Executive except as expressly provided herein. The limitations under paragraph 4.1 and 4.2 are not intended to impact the compensation under the remaining paragraphs of this paragraph 4. Notwithstanding the foregoing, the Board of Directors may reduce the amounts or awards under paragraph 4.2 or 4.3 of this Agreement on a reasonable basis provided such decrease is applicable to all executives of the Company and does not result in a proportionately greater reduction in the amounts or awards to Executive under such paragraphs as compared to any other executive of the Company or any of the Company's subsidiaries.

5.Term. In the absence of termination as set forth in paragraph 6 below, this Agreement will extend for a term commencing on the effective date of this Agreement and ending on December 31, 2013, as extended from time to time (the "Expiration Date"). Unless the Company provides at least thirty (30) days prior written notice of non-extension to the Executive, on each December 31 during the term of this Agreement, the term and the Expiration Date will be automatically extended for one (1) additional year so that the remaining term on this Agreement will be not less than four (4) and not more than five (5) years.

6.Termination. This Agreement will continue in effect until the expiration of the term set forth in paragraph 5 of this Agreement unless earlier terminated pursuant to this paragraph 6.

- 6.1 Termination by Company. The Company will have the following rights to terminate this Agreement:

- 6.1.1 Termination without Cause. The Company may terminate this Agreement without Cause at any time by giving written notice of termination to the Executive specifying an effective date of such termination not sooner than ninety (90) business days after the date of such notice (the "Termination Date"). In the event the Executive is terminated without Cause (other than a CC Termination under paragraph 6.3 of this Agreement), the Executive will be entitled to the following: (a) payment of Base Compensation (as hereafter defined) in accordance with the Company's policies during the remaining term

of this Agreement, but in any event through the then current Expiration Date; (b) continuation of the benefits provided by operation of paragraphs 4.4, 4.6, 4.7 and 4.8 of this Agreement (excepting participation in any retirement or deferred compensation plan maintained by the Company if such participation is prohibited by law) at the levels and on the terms provided on the date of termination hereunder during the remaining term of this Agreement, but in any event through the then current Expiration Date; and (c) a lump sum cash payment for any accrued but unused vacation through the Termination Date in accordance with the Company's Employment Policies Manual. For purposes of this Agreement the term "Base Compensation" means the Executive's current Base Salary under paragraph 4.1 on the Termination Date plus the bonus compensation received by the Executive during the twelve (12) month period preceding the Termination Date. Termination compensation under subsection (a) of this paragraph 6.1.1 will not be paid in a lump sum, but will be paid in equal installments during the remaining term of this Agreement in accordance with the Company's payroll schedule applicable to employees as of the date of this Agreement (but in any event through the then current Expiration Date). Any benefits under clause (b) will be subject to any conditions or obligations in existence on the Termination Date.

- 6.1.2 Termination for Cause. The Company may terminate this Agreement for Cause. For purposes of this Agreement, "Cause" means: (a) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of the Company Entities (other than a failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board of Directors which specifically identifies the manner in which the Board of Directors believes that the Executive has not substantially performed the Executive's duties; or (b) the willful engaging by the Executive in illegal conduct, gross misconduct or a clearly established violation of the Company's written policies and procedures, in each case which is materially and demonstrably injurious to the Company. For purposes of this provision, an act or failure to act, on the part of the Executive, will not be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based on authority given pursuant to a resolution duly adopted by the Board of Directors or based on the advice of counsel for the Company will be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. In the event this Agreement is terminated for Cause, subject to paragraph 6.6 of this

Agreement, the Company will not have any obligation to provide any further payments or benefits to the Executive after the effective date of such termination. This Agreement will not be deemed to have terminated for Cause unless a written determination specifying the reasons for such termination is made, approved by a majority of the independent and disinterested members of the Board of Directors of the Company and delivered to the Executive. Thereafter, the Executive will have the right for a period of thirty (30) days to request a Board of Directors meeting to be held at a mutually agreeable time and location to be attended by the members of the Board of Directors in person within the following thirty (30) days, at which meeting the Executive will have an opportunity to be heard. Failing such determination and opportunity for hearing, any termination of this Agreement will be deemed to have occurred without Cause.

- 6.2 Termination by Executive. The Executive: (a) except as provided herein, may not voluntarily terminate this Agreement prior to December 31, 2013 (the "Executive Termination Date"); (b) may terminate this Agreement after the Executive Termination Date by giving written notice of such termination to the Company at least one hundred eighty (180) days prior to the effective date of such termination; (c) in addition to any other remedy hereunder, may terminate this Agreement at any time (including prior to the Executive Termination Date) if the Company defaults with respect to a material provision of this Agreement, by giving written notice of such termination to the Company specifying the default by the Company and an effective date of such termination if the default is not cured at least forty-five (45) days after the date of such notice (an "Executive FC Termination"). After the delivery of a notice of termination in accordance with this paragraph the Executive may use remaining accrued vacation days, or at the Company's option, be paid for such days. In the event this Agreement is terminated by the Executive in accordance with this paragraph the obligations of the parties will be controlled by paragraph 6.6 of this Agreement.
- 6.3 Termination After Change in Control. If during the term of this Agreement there is a "Change of Control" and within three (3) years thereafter there is a CC Termination (as hereafter defined), then the Executive will be entitled to severance compensation (in addition to any other rights and other amounts payable to the Executive under this Agreement or otherwise through the date of the CC Termination) in an amount equal to three (3) times the Executive's Base Compensation. Unless the Executive elects otherwise as hereinafter provided, the severance compensation under this paragraph 6.3 will not be paid in a lump sum but will be paid in equal installments over the remaining term of this Agreement (but in any event through the then current Expiration Date) in accordance with the Company's the payroll schedule applicable to employees as of the date of this Agreement. The Executive may elect in the notice under paragraph 6.3.2 of this Agreement to receive the foregoing

severance compensation in a lump sum in lieu of the payout, such lump sum to be paid by the Company within ten (10) days after the CC Termination. If any amount under this paragraph is not paid when due, the unpaid amount will bear interest at the per annum rate of twelve percent (12%).

6.3.1 Change of Control. For the purpose of this Agreement, a “Change of Control” means the occurrence of any of the following:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”). For purposes of this paragraph (a) the following acquisitions by a Person will not constitute a Change of Control: (i) any acquisition directly from the Company; (ii) any acquisition by the Company; (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of paragraph (c) of this paragraph 6.3.1.

(b) The individuals who, as of the date hereof, constitute the Board of Directors (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of Directors. Any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board as of the date hereof, but any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board will not be deemed a member of the Incumbent Board as of the date hereof.

(c) The consummation of a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless following such Business Combination: (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding

Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination.

(d) The approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

- 6.3.2 CC Termination. The term "CC Termination" means any of the following which occur and for which the Executive notifies the Company that the Executive deems such action a CC Termination under this paragraph: (a) this Agreement expires in accordance with its terms; (b) this Agreement is not extended under paragraph 5 of this Agreement and the Executive resigns within one (1) year after such non-extension; (c) a required relocation more than 25 miles from the Executive's then current place of employment; (c) a default by the Company under this Agreement; (d) the failure by the Company after a Change of Control to obtain the assumption of this Agreement, without limitation or reduction, by any successor to the Company or any parent corporation of the Company; or (e) after a Change of Control has occurred, the Executive agrees to remain employed by the Company for a period of three (3) months to assist in the transition and thereafter resigns.

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- 6.4 Incapacity of Executive. If the Executive suffers from a physical or mental condition, which in the reasonable judgment of the Company's Board of Directors, prevents the Executive in whole or in part from performing the duties specified herein for a period of four (4) consecutive months, the Executive may be terminated. Although the termination will be deemed as a termination with Cause, the Executive will be entitled to the compensation provided for in paragraph 6.1.1 of this Agreement with Base Compensation to be reduced by any benefits payable under any disability plans provided to the Executive at the Company's expense.
- 6.5 Death of Executive. If the Executive dies during the term of this Agreement, the Company may thereafter terminate this Agreement without compensation to the Executive's estate except the Company will be obligated to continue for twelve (12) months after the effective date of such termination to: (a) pay the Base Salary payments under paragraph 4.1 of this Agreement; and (b) provide Accounting Support benefits under paragraph 4.7 of this Agreement.
- 6.6 Effect of Termination. The termination of this Agreement will terminate all obligations of the Executive to render services on behalf of the Company, provided that the Executive will continue to comply with the provisions of paragraphs 7 and 8 of this Agreement as long as they are applicable. Except as otherwise provided in this paragraph 6, no accrued bonus, severance pay or other form of compensation will be payable by the Company to the Executive by reason of the termination of this Agreement. In the event that payments are required to be made by the Company under this paragraph 6, the Executive will not be required to seek other employment as a means of mitigating the Company's obligations hereunder resulting from termination of the Executive's employment and the Company's obligations hereunder (including payment of severance benefits) will not be terminated, reduced or modified as a result of the Executive's earnings from other employment or self-employment. All keys, entry cards, credit cards, files, records, financial information, furniture, furnishings, equipment, supplies and other items relating to the Company will remain the property of the Company and the EP Information will remain the property of the Executive. The Executive will have the right to retain and remove all EP Information, personal property and effects that are owned by the Executive and located in the offices of the Company. All such personal items will be removed from such offices no later than sixty (60) days after the effective date of termination, and the Company is hereby authorized to discard any items remaining and to reassign the Executive's office space after such date. Prior to the effective date of termination, the Executive will cooperate with the Company to provide for the orderly termination of the Executive's employment. If prior to the Executive Termination Date there occurs a termination by the Company under paragraph 6.1.2 of this Agreement or a termination by the Executive in violation of paragraph 6.2 of this Agreement, the Company will be entitled to recoupment of the Incentive Award from the

Executive as provided in paragraph 4.8 of this Agreement. In the event of termination under any other provision of this Agreement (including, without implied limitation, an Executive FC Termination under paragraph 6.2 of this Agreement or any termination under paragraphs 6.3, 6.4 or 6.5), the Company will not have a right of recoupment under paragraph 4.8 or otherwise for all or part of the Incentive Award and the Executive, and any assigns of the Executive, will be entitled to retain, exercise and utilize all of the benefits of the Incentive Award including, without implied limitation, to utilize or obtain a refund of the IA JIB Credit in accordance with paragraph 4.8. In addition to the foregoing, the Executive will be entitled to continue to participate in the FWP Program to the extent allowed by the terms of the FWP Program.

- 6.7 Equity Compensation and Non-Qualified Deferred Compensation Plan Provisions. Notwithstanding any provision to the contrary in any option agreement, restricted stock agreement, plan or other agreement relating to equity based compensation or non-qualified deferred compensation benefits, in the event of a termination under paragraph 6.1.1, 6.2 (but only if the Executive is at least 55 years of age on the date of termination under paragraph 6.2), 6.4 or 6.5 of this Agreement: (a) all units, stock options, incentive stock options, supplemental matching contributions, performance shares, stock appreciation rights and restricted stock held by Executive immediately prior to such termination will immediately become 100% vested; and (b) the Executive's right to exercise any previously unexercised options will not terminate until the latest date on which such option would expire but for Executive's termination of employment. To the extent Company is unable to provide for one or both of the foregoing rights the Company will provide in lieu thereof a lump-sum cash payment equal to the difference between the total value of such units, stock options, incentive stock options, supplemental matching contributions, performance shares, stock appreciation rights and shares of restricted stock (the "Equity Compensation Rights") with the foregoing rights as of the date of Executive's termination of employment and the total value of the Equity Compensation without the foregoing rights as of the date of the Executive's termination of employment. The foregoing amounts will be determined by the Board of Directors in good faith after consultation with the Executive based on a valuation performed by an independent consultant selected by the Board of Directors.

7. Confidentiality. The Executive recognizes that the nature of the Executive's services are such that the Executive will have access to information which constitutes trade secrets, is of a confidential nature, is of great value to the Company or is the foundation on which the business of the Company is predicated. The Executive agrees not to disclose to any person other than the Company's employees or the Company's legal counsel nor use for any purpose, other than the performance of this Agreement, any confidential information ("Confidential Information"). Confidential Information includes data or material (regardless of form) which is: (a) a trade secret; (b) provided, disclosed or delivered to Executive by

the Company, any officer, director, employee, agent, attorney, accountant, consultant, or other person or entity employed by the Company in any capacity, any customer, borrower or business associate of the Company or any public authority having jurisdiction over the Company of any business activity conducted by the Company; or (c) produced, developed, obtained or prepared by or on behalf of Executive or the Company (whether or not such information was developed in the performance of this Agreement) with respect to the Company or any assets oil and gas prospects, business activities, officers, directors, employees, borrowers or customers of the foregoing. However, Confidential Information will not include any information, data or material which at the time of disclosure or use was generally available to the public other than by a breach of this Agreement, was available to the party to whom disclosed on a non-confidential basis by disclosure or access provided by the Company or a third party, or was otherwise developed or obtained independently by the person to whom disclosed without a breach of this Agreement. On request by the Company, the Company will be entitled to a copy of any Confidential Information in the possession of the Executive. The Executive also agrees that the provisions of this paragraph 7 will survive the termination, expiration or cancellation of this Agreement for a period of one (1) year. The Executive will deliver to the Company all originals and copies of the documents or materials containing Confidential Information. For purposes of paragraphs 7, 8, and 9 of this Agreement, the Company expressly includes any of the Company Entities.

8. Non-competition. During the Executive's employment hereunder and for the period ending six months after the later of (i) the Executive's termination in accordance with this Agreement or (ii) the date amounts owing to the Executive in accordance with paragraph 6 of this Agreement cease to be due in accordance with the terms of this Agreement, the Executive will not: (a) acquire, attempt to acquire or aid another in the acquisition or attempted acquisition of an interest in oil and gas assets, oil and gas production, oil and gas leases, minerals interests, oil and gas wells or other such oil and gas exploration, development or production activities within any spacing unit in which the Company owns an oil and gas interest on the date of the resignation or termination of the Executive; (b) solicit, induce, entice or attempt to entice any employee, contractor, customer, vendor or subcontractor to terminate or breach any relationship with the Company or the Company's affiliates for the Executive's own account or for the benefit of another party; and (c) circumvent or attempt to circumvent the foregoing agreements by any future arrangement or through the actions of a third party. The foregoing will not prohibit the activities which are expressly permitted by paragraph 3 of this Agreement.

9. Proprietary Matters. The Executive expressly understands and agrees that any and all improvements, inventions, discoveries, processes or know-how that are generated or conceived by the Executive during the term of this Agreement, whether generated or conceived during the Executive's regular working hours or otherwise, will be the sole and exclusive property of the Company. Whenever requested by the Company (either during the term of this Agreement or thereafter), the Executive will assign or execute any and all applications, assignments and or other instruments and do all things which the Company deems necessary or appropriate in order to permit the Company to: (a) assign and convey or otherwise make available to the Company the sole and exclusive right, title, and interest

in and to said improvements, inventions, discoveries, processes, know-how, applications, patents, copyrights, trade names or trademarks; or (b) apply for, obtain, maintain, enforce and defend patents, copyrights, trade names, or trademarks of the United States or of foreign countries for said improvements, inventions, discoveries, processes or know-how. However, the improvements, inventions, discoveries, processes or know-how generated or conceived by the Executive and referred to above (except as they may be included in the patents, copyrights or registered trade names or trademarks of the Company, or corporations, partnerships or other entities which may be affiliated with the Company) will not be exclusive property of the Company at any time after having been disclosed or revealed or have otherwise become available to the public or to a third party on a non-confidential basis other than by a breach of this Agreement, or after they have been independently developed or discussed without a breach of this Agreement by a third party who has no obligation to the Company or the Company Entities.

10. Arbitration. The parties will attempt to promptly resolve any dispute or controversy arising out of or relating to this Agreement or termination of the Executive by the Company. Any negotiations pursuant to this paragraph 10 are confidential and will be treated as compromise and settlement negotiations for all purposes. If the parties are unable to reach a settlement amicably, the dispute will be submitted to binding arbitration before a single arbitrator in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association. The arbitrator will be instructed and empowered to take reasonable steps to expedite the arbitration and the arbitrator's judgment will be final and binding upon the parties subject solely to challenge on the grounds of fraud or gross misconduct. Except for damages arising out of a breach of paragraphs 6, 7, 8 or 9 of this Agreement, the arbitrator is not empowered to award total damages (including compensatory damages) that exceed 300% of compensatory damages and each party hereby irrevocably waives any damages in excess of that amount. The arbitration will be held in Oklahoma County, Oklahoma. Judgment upon any verdict in arbitration may be entered in any court of competent jurisdiction and the parties hereby consent to the jurisdiction of, and proper venue in, the federal and state courts located in Oklahoma County, Oklahoma. The Company will pay the costs and expenses of the arbitration including, without implied limitation, the fees for the arbitrators. Unless otherwise expressly set forth in this Agreement, the procedures specified in this paragraph 10 will be the sole and exclusive procedures for the resolution of disputes and controversies between the parties arising out of or relating to this Agreement. Notwithstanding the foregoing, a party may seek a preliminary injunction or other provisional judicial relief if in such party's judgment such action is necessary to avoid irreparable damage or to preserve the status quo.

11. Miscellaneous. The parties further agree as follows:

11.1 Time. Time is of the essence of each provision of this Agreement.

11.2 Notices. Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement will be in writing and will be deemed to have been given when delivered personally or by

telefacsimile to the party designated to receive such notice, or on the date following the day sent by overnight courier, or on the third (3rd) business day after the same is sent by certified mail, postage and charges prepaid, directed to the following address or to such other or additional addresses as any party might designate by written notice to the other party:

To the Company: Chesapeake Energy Corporation
 Post Office Box 18496
 Oklahoma City, OK 73154-0496
 Attn: Martha A. Burger

To the Executive: Mr. Aubrey K. McClendon
 6902 Avondale Drive
 Oklahoma City, Oklahoma 73116

- 11.3 Assignment. Neither this Agreement nor any of the parties' rights or obligations hereunder can be transferred or assigned without the prior written consent of the other parties to this Agreement.
- 11.4 Construction. If any provision of this Agreement or the application thereof to any person or circumstances is determined, to any extent, to be invalid or unenforceable, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which the same is held invalid or unenforceable, will not be affected thereby, and each term and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law. This Agreement is intended to be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma.
- 11.5 Entire Agreement. Except as provided in paragraph 2.3 of this Agreement, this Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter herein contained, and no modification hereof will be effective unless made by a supplemental written agreement executed by all of the parties hereto.
- 11.6 Binding Effect. This Agreement will be binding on the parties and their respective successors, legal representatives and permitted assigns. In the event of a merger, consolidation, combination, dissolution or liquidation of the Company, the performance of this Agreement will be assumed by any entity which succeeds to or is transferred the business of the Company as a result thereof.
- 11.7 Attorneys' Fees. If any party institutes an action, proceeding or arbitration against any other party relating to the provisions of this Agreement or any default hereunder, the Company will be responsible for paying the Company's legal fees and expenses and the Company will be required to

reimburse the Executive for reasonable expenses and legal fees incurred by the Executive in connection with the resolution of such action or proceeding, including any costs of appeal.

- 11.8 Supercession. This Agreement is the final, complete and exclusive expression of the agreement between the Company and the Executive and supersedes and replaces in all respects any prior employment agreements (including the Prior Agreement). On execution of this Agreement by the Company and the Executive, the relationship between the Company and the Executive after the effective date of this Agreement will be governed by the terms of this Agreement and not by any other agreements, oral or otherwise.
- 11.9 Section 409A Compliance. This Agreement is intended to comply with Section 409A of the Code and will be construed in accordance with such intent. To the extent that any benefit to be paid or granted under this Agreement is subject to Section 409A of the Code, such benefit will be paid or granted in a manner that will comply with Section 409A of the Code (including any Section 409A guidance reasonably acceptable to both parties). Any provision of this Agreement that would cause a benefit to fail to satisfy Section 409A of the Code will have no force or effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code).

IN WITNESS WHEREOF, the undersigned have executed this Agreement this 1st day of March, 2009, effective the date first above written.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By: /s/ Martha A. Burger
Martha A. Burger,
Senior Vice President, Human and Corporate Resources
(the "Company")

/s/ Aubrey K. McClendon
Aubrey K. McClendon, individually
(the "Executive")

EXHIBIT 12

CHESAPEAKE ENERGY CORPORATION
RATIOS OF EARNINGS TO FIXED CHARGES AND COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS
(\$ in millions)

	Year Ended December 31, 2004	Year Ended December 31, 2005	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	Three Months Ended March 31, 2009
EARNINGS:						
Income (loss) before income taxes and Cumulative effect of accounting change	\$ 805	\$ 1,492	\$ 3,241	\$ 2,347	\$ 991	\$ (9,184)
Interest expense (a)	162	223	318	375	225	42
(Gain)/loss on investment in equity investees in excess of distributed earnings	(1)	1	(3)	21	40	1
Amortization of capitalized interest	5	10	19	40	74	36
Loan cost amortization	6	9	13	16	19	6
Earnings	\$ 977	\$ 1,735	\$ 3,588	\$ 2,799	\$ 1,349	\$ (9,099)
FIXED CHARGES:						
Interest expense	\$ 162	\$ 223	\$ 318	\$ 375	\$ 225	\$ 42
Capitalized interest	36	79	179	311	586	161
Loan cost amortization	6	9	13	16	19	6
Fixed Charges	\$ 204	\$ 311	\$ 510	\$ 702	\$ 830	\$ 209
Preferred Stock Dividends						
Preferred Dividend Requirements	\$ 40	\$ 42	\$ 89	\$ 94	\$ 33	\$ 6
Ratio of income before provision for taxes to net income (b)	1.56	1.57	1.63	1.62	1.64	1.60
Subtotal – Preferred Dividends	\$ 62	\$ 66	\$ 145	\$ 152	\$ 54	\$ 10
Combined Fixed Charges and Preferred Dividends	\$ 266	\$ 377	\$ 655	\$ 854	\$ 884	\$ 219
Ratio of Earnings to Fixed Charges	4.8	5.6	7.0	4.0	1.6	(43.6)
Insufficient coverage	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9,308
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	3.7	4.6	5.5	3.3	1.5	(41.6)
Insufficient coverage	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9,318

(a) Excludes the effect of unrealized gains or losses on interest rate derivatives and includes amortization of bond discount.

(b) Amounts of income before provision for taxes and of net income exclude the cumulative effect of accounting change.

CERTIFICATION

I, Aubrey K. McClendon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chesapeake Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2009

/s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
Chairman of the Board and Chief Executive Officer

CERTIFICATION

I, Marcus C. Rowland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chesapeake Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2009

/s/ MARCUS C. ROWLAND

Marcus C. Rowland
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Chesapeake Energy Corporation (the "Company" on Form 10-Q for the Period ended March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Aubrey K. McClendon, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ AUBREY K. MCCLENDON

Aubrey K. McClendon
Chairman of the Board and Chief Executive Officer

Date: May 11, 2009

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Chesapeake Energy Corporation (the "Company" on Form 10-Q for the Period ended March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Marcus C. Rowland, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MARCUS C. ROWLAND

Marcus C. Rowland
Executive Vice President and Chief Financial Officer

Date: May 11, 2009