FORM 10-Q

CHESAPEAKE ENERGY CORP - CHK

Filed: November 09, 2009 (period: September 30, 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

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

For the Quarterly Period Ended September 30, 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	**73-1395733**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6100 North Western Avenue **Oklahoma City, Oklahoma**	**73118**
(Address of principal executive offices)	(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 [X] 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 [X] 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 [X] Accelerated filer [ ] Non-accelerated filer [ ] 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 [X]

As of November 4, 2009, there were 647,707,733 shares of our $0.01 par value common stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
INDEX TO FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2009

PART I.

Financial Information

PART II.

Other Information

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

	September 30, 2009	December 31, 2008 (Adjusted)
	($ in millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 520	$ 1,749
Accounts receivable, net	1,298	1,324
Short-term derivative instruments	538	1,082
Other	152	137
Total Current Assets	2,508	4,292
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, at cost based on full-cost accounting:		
Evaluated natural gas and oil properties	33,513	28,965
Unevaluated properties	9,708	11,379
Less: accumulated depreciation, depletion and amortization of natural gas and oil properties	(22,489)	(11,866)
Total natural gas and oil properties, at cost based on full-cost accounting	20,732	28,478
Other property and equipment:		
Natural gas gathering systems and treating plants	3,307	2,717
Buildings and land	1,656	1,513
Drilling rigs and equipment	610	430
Natural gas compressors	301	184
Other	538	482
Less: accumulated depreciation and amortization of other property and equipment	(766)	(496)
Total other property and equipment	5,646	4,830
Total Property and Equipment	26,378	33,308
OTHER ASSETS:		
Investments	422	444
Long-term derivative instruments	89	261
Other assets	322	288
Total Other Assets	833	993
TOTAL ASSETS	$ 29,719	$ 38,593

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

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

	September 30, 2009	December 31, 2008 (Adjusted)
	($ in millions)	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 932	$ 1,611
Short-term derivative instruments	28	66
Accrued liabilities	838	880
Deferred income taxes	172	358
Income taxes payable	1	108
Revenues and royalties due others	392	431
Accrued interest	151	167
Total Current Liabilities	2,514	3,621
LONG-TERM LIABILITIES:		
Long-term debt, net	12,073	13,175
Deferred income tax liabilities	1,316	4,200
Asset retirement obligations	282	269
Long-term derivative instruments	256	111
Other liabilities	449	200
Total Long-Term Liabilities	14,376	17,955
CONTINGENCIES AND COMMITMENTS (Note 3)		
EQUITY:		
Chesapeake 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 September 30, 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 September 30, 2009 and December 31, 2008, entitled in liquidation to $209 million	209	209
5.00% cumulative convertible preferred stock (series 2005), 5,000 shares issued and outstanding as of September 30, 2009 and December 31, 2008, entitled in liquidation to $1 million	1	1
6.25% mandatory convertible preferred stock, 0 shares and 143,768 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively, entitled in liquidation to $0 and $36 million	—	36
4.125% cumulative convertible preferred stock, 0 and 3,033 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively, entitled in liquidation to $0 and $3 million	—	3
Common stock, $0.01 par value, 1,000,000,000 shares and 750,000,000 shares authorized, 645,273,711 and 607,953,437 shares issued at September 30, 2009 and December 31, 2008, respectively	6	6
Paid-in capital	11,981	11,680
Retained earnings (deficit)	(737)	4,569
Accumulated other comprehensive income (loss), net of tax of ($167) million and ($163) million, respectively	274	267
Less: treasury stock, at cost; 766,554 and 657,276 common shares as of September 30, 2009 and December 31, 2008, respectively	(12)	(10)
Total Chesapeake Stockholders' Equity	11,978	17,017
Noncontrolling interest	851	—
Total Equity	12,829	17,017
TOTAL LIABILITIES AND EQUITY	$ 29,719	$ 38,593

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008 (Adjusted)	2009	2008 (Adjusted)
	($ in millions except per share data)			
REVENUES:				
Natural gas and oil sales	$ 1,187	$ 6,408	$ 3,681	$ 5,587
Marketing, gathering and compression sales	575	1,038	1,660	2,934
Service operations revenue	49	45	139	127
Total Revenues	1,811	7,491	5,480	8,648
OPERATING COSTS:				
Production expenses	218	239	670	658
Production taxes	25	87	71	250
General and administrative expenses	95	108	259	288
Marketing, gathering and compression expenses	546	1,014	1,569	2,864
Service operations expense	49	37	136	104
Natural gas and oil depreciation, depletion and amortization	295	480	1,037	1,518
Depreciation and amortization of other assets	62	48	177	124
Impairment of natural gas and oil properties and other assets	86	—	9,721	—
Loss on sale of other property and equipment	38	—	38	—
Restructuring costs	—	—	34	—
Total Operating Costs	1,414	2,013	13,712	5,806
INCOME (LOSS) FROM OPERATIONS	397	5,478	(8,232)	2,842
OTHER INCOME (EXPENSE):				
Other income (expense)	(30)	(12)	(25)	(23)
Interest expense	(43)	(34)	(52)	(186)
Impairment of investments	—	—	(162)	—
Loss on exchanges of Chesapeake debt	(17)	(31)	(19)	(31)
Total Other Income (Expense)	(90)	(77)	(258)	(240)
INCOME (LOSS) BEFORE INCOME TAXES	307	5,401	(8,490)	2,602
INCOME TAX EXPENSE (BENEFIT):				
Current income taxes	—	193	1	196
Deferred income taxes	115	1,886	(3,185)	806
Total Income Tax Expense (Benefit)	115	2,079	(3,184)	1,002
NET INCOME (LOSS)	192	3,322	(5,306)	1,600
Net income (loss) attributable to noncontrolling interest	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	192	3,322	(5,306)	1,600
Preferred stock dividends	(6)	(6)	(18)	(27)
Loss on conversion/exchange of preferred stock	—	(25)	—	(67)
NET INCOME (LOSS) AVAILABLE TO CHESAPEAKE COMMON STOCKHOLDERS	$ 186	$ 3,291	$ (5,324)	$ 1,506
EARNINGS (LOSS) PER COMMON SHARE:				
Basic	$ 0.30	$ 5.94	$ (8.78)	$ 2.88
Assuming dilution	$ 0.30	$ 5.62	$ (8.78)	$ 2.76
CASH DIVIDEND DECLARED PER COMMON SHARE	$ 0.075	$ 0.075	$ 0.225	$ 0.2175
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):				
Basic	619	554	606	523
Assuming dilution	626	588	606	557

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 CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008 (Adjusted)
	($ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ (5,306)	$ 1,600
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	1,214	1,642
Deferred income tax expense (benefit)	(3,185)	806
Impairments	9,883	—
Loss on sale of other property and equipment	38	—
Unrealized (gains) losses on derivatives	295	(89)
Realized (gains) losses on financing derivatives	(53)	59
Stock-based compensation	104	100
Accretion of discount on contingent convertible notes	60	57
Restructuring costs	12	—
Loss from equity investments	32	34
Loss on exchanges of Chesapeake debt	19	31
Other	8	5
Change in assets and liabilities	10	142
Cash provided by operating activities	3,131	4,387
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development of natural gas and oil properties	(2,767)	(4,621)
Acquisitions of natural gas and oil companies, proved and unproved properties and leasehold, net of cash acquired	(1,371)	(7,691)
Proceeds from sales of volumetric production payments	408	1,210
Proceeds from divestitures of proved and unproved properties and leasehold	1,321	4,666
Additions to other property and equipment	(1,362)	(1,969)
Additions to investments	(40)	(61)
Proceeds from sale of drilling rigs and equipment	—	46
Proceeds from sale of compressors	68	114
Proceeds from sale of other assets	89	21
Proceeds from sale of investments	—	2
Cash used in investing activities	(3,654)	(8,283)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facilities borrowings	5,563	12,831
Payments on credit facilities borrowings	(7,866)	(11,307)
Proceeds from issuance of senior notes, net of offering costs	1,346	2,136
Proceeds from issuance of common stock, net of offering costs	—	2,598
Cash paid to repurchase Chesapeake debt	—	(312)
Cash paid for common stock dividends	(135)	(106)
Cash paid for preferred stock dividends	(18)	(29)
Proceeds from sale of noncontrolling interest in midstream joint venture	588	—
Derivative settlements	19	(146)
Net increase (decrease) in outstanding payments in excess of cash balance	(305)	210
Proceeds from mortgage of building	54	—
Proceeds from financing of real estate surface assets	145	—
Excess tax benefit from stock-based compensation	—	42
Other	(97)	(58)
Cash provided (used in) by financing activities	(706)	5,859
Net increase (decrease) in cash and cash equivalents	(1,229)	1,963
Cash and cash equivalents, beginning of period	1,749	1
Cash and cash equivalents, end of period	$ 520	$ 1,964

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)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008 (Adjusted)
	($ in millions)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION OF CASH PAYMENTS FOR:		
Interest, net of $467 million and $390 million of capitalized interest, respectively	$ 111	$ 133
Income taxes, net of refunds received	$ 176	$ 5

SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:

As of September 30, 2009 and 2008, dividends payable on our common and preferred stock were $52 million and $48 million, respectively.

For the nine months ended September 30, 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 nine months ended September 30, 2009 and 2008, natural gas and oil properties were adjusted by ($77) million and ($3) million, respectively, as a result of an increase (decrease) in accrued exploration and development costs.

For the nine months ended September 30, 2009 and 2008, other property and equipment were adjusted by ($31) million and $23 million, respectively, as a result of an increase (decrease) in accrued costs.

We recorded non-cash asset additions (reductions) to natural gas and oil properties of ($3) million and $6 million for the nine months ended September 30, 2009 and 2008, respectively, for asset retirement obligations.

We recorded non-cash asset additions to natural gas gathering systems of $3 million and $6 million for the nine months ended September 30, 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.

On June 15, 2009, we converted all of our outstanding 6.25% Mandatory Convertible Preferred Stock (143,768 shares) into 1,239,538 shares of common stock.

During the nine months ended September 30, 2009, holders of our 2.25% Contingent Convertible Senior Notes due 2038 exchanged approximately $238 million in aggregate principal amount for an aggregate of 6,707,321 shares of our common stock in privately negotiated exchanges.

During the nine months ended September 30, 2009, we issued 24,822,832 shares of common stock, valued at $429 million, for the purchase of proved and unproved properties and leasehold pursuant to an acquisition shelf registration statement.

During the nine months ended September 30, 2008, holders of our 5.0% Cumulative Convertible Preferred Stock (Series 2005B) exchanged 3,654,385 shares for 10,443,642 shares of common stock in privately negotiated exchanges.

During the nine months ended September 30, 2008, a holder of our 4.5% Cumulative Convertible Preferred Stock exchanged 891,100 shares for 2,227,750 shares of common stock in a privately negotiated exchange.

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

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008 (Adjusted)
	($ in millions)	
PREFERRED STOCK:		
Balance, beginning of period	$ 505	$ 960
Exchange of common stock for 143,768 and 0 shares of 6.25% preferred stock	(36)	—
Exchange of common stock for 3,033 and 29 shares of 4.125% preferred stock	(3)	—
Exchange of common stock for 0 and 891,100 shares of 4.50% preferred stock	—	(89)
Exchange of common stock for 0 and 3,654,385 shares of 5.00% preferred stock (series 2005B)	—	(366)
Balance, end of period	466	505
COMMON STOCK:		
Balance, beginning of period	6	5
Issuance of 24,822,832 and 0 shares of common stock for the purchase of proved and unproved properties and leasehold	—	—
Issuance of 0 and 51,750,000 shares of common stock	—	1
Exchange of 6,707,321 and 0 shares of common stock for convertible notes	—	—
Exchange of 1,422,425 and 12,673,135 shares of common stock for preferred stock	—	—
Balance, end of period	6	6
PAID-IN CAPITAL:		
Balance, beginning of period	11,680	7,532
Issuance of 24,822,832 shares and 0 shares of common stock for the purchase of proved and unproved properties and leasehold	420	—
Issuance of 0 and 51,750,000 shares of common stock	—	2,698
Issuance of 2.25% contingent convertible senior notes due 2038	—	345
Exchange of 6,707,321 and 0 shares of common stock for convertible notes	164	—
Exchange of 1,422,425 and 12,673,135 shares of common stock for preferred stock	39	454
Stock-based compensation	140	124
Exercise of stock options	3	8
Offering expenses	—	(113)
Dividends on common stock	(138)	—
Dividends on preferred stock	(17)	—
Allocation of joint venture capital to Global Infrastructure Partners	(263)	—
Tax benefit (reduction in tax benefit) from exercise of stock-based compensation	(47)	42
Balance, end of period	11,981	11,090
RETAINED EARNINGS (DEFICIT):		
Balance, beginning of period	4,569	4,145
Net income (loss)	(5,306)	1,600
Dividends on common stock	—	(115)
Dividends on preferred stock	—	(15)
Balance, end of period	(737)	5,615
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Balance, beginning of period	267	(11)
Hedging activity	(60)	54
Investment activity	67	1
Balance, end of period	274	44
TREASURY STOCK – COMMON:		
Balance, beginning of period	(10)	(6)
Purchase of 115,430 and 87,056 shares for company benefit plans	(2)	(3)
Release of 6,152 and 1,098 shares for company benefit plans	—	—
Balance, end of period	(12)	(9)
TOTAL CHESAPEAKE STOCKHOLDERS' EQUITY	11,978	17,251
NONCONTROLLING INTEREST:		
Sale of noncontrolling interest in midstream joint venture	588	—
Allocation of joint venture capital to Global Infrastructure Partners	263	—
Balance, end of period	851	—
TOTAL EQUITY	$ 12,829	$ 17,251

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008 (Adjusted)	2009	2008 (Adjusted)
	($ in millions)			
Net income (loss)	$ 192	$ 3,322	$ (5,306)	$ 1,600
Other comprehensive income (loss), net of income tax:				
Change in fair value of derivative instruments, net of income taxes of $38 million, $728 million, $372 million and ($105) million	62	1,187	609	(170)
Reclassification of (gain) loss on settled contracts, net of income taxes of ($144) million, $65 million, ($377) million, and $117 million	(236)	104	(617)	189
Ineffective portion of derivatives qualifying for cash flow hedge accounting, net of income taxes of $2 million, ($29) million, ($31) million and $20 million	5	(46)	(52)	34
Unrealized (gain) loss on investments, net of income taxes of $4 million, ($16) million, $14 million and $1 million	6	(27)	24	1
Reclassification of loss on investments, net of income taxes of $0, $0, $26 million and $0	—	—	43	—
Comprehensive income (loss) attributable to Chesapeake stockholders	29	4,540	(5,299)	1,654
Comprehensive income attributable to noncontrolling interest	—	—	—	—
Comprehensive income (loss)	$ 29	$ 4,540	$ (5,299)	$ 1,654

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 (SEC). 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. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended December 31, 2008 contained in our Current Report on Form 8-K dated June 25, 2009. 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 and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year. This Form 10-Q relates to the three and nine months ended September 30, 2009 (the "Current Quarter" and the "Current Period", respectively) and the three and nine months ended September 30, 2008 (the "Prior Quarter" and the "Prior Period", respectively). Any material subsequent events have been considered for disclosure through November 9, 2009, the filing date of this Form 10-Q.

Change in Accounting Principle

On January 1, 2009, we adopted and applied retrospectively the provisions of Accounting Standards Codification (ASC), 470-20 *Debt with Conversion and Other Options*. 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.

Oil and Natural Gas Properties – Ceiling Test

We review the carrying value of our natural gas and oil properties under the full-cost accounting rules of the SEC 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 (including the impact of cash flow hedges) less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. Any excess of the net book value, less deferred income taxes, is written off as an expense. Under SEC regulations, the excess above the ceiling is not expensed (or is reduced) if, subsequent to the end of the period, but prior to the release of the financial statements, natural gas and oil prices increase sufficiently such that an excess above the ceiling would have been eliminated (or reduced) if the increased prices were used in the calculations.

In calculating future net revenues, prices and costs used are those as of the end of the appropriate quarterly period 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. Our qualifying cash flow hedges as of September 30, 2009, which consisted of swaps and collars, covered 126 bcfe and 74 bcfe in 2009 and 2010, respectively. Our natural gas and oil hedging activities are discussed in Note 2 of these condensed consolidated financial statements. Based on spot prices for natural gas and oil of $3.30 per mcf and $70.21 per barrel, respectively, as of September 30, 2009, these cash flow hedges increased the full-cost ceiling by $968 million, thereby reducing any potential ceiling test write-down by the same amount before the effect of income taxes.

As of September 30, 2009, our ceiling test calculation indicated an impairment of our natural gas and oil properties of approximately $1.2 billion, net of tax. Based on natural gas and oil prices at November 4, 2009 of $4.49 per mcf and $80.64 per barrel, respectively, as well as the corresponding adjusted impact from our cash flow hedges of $738 million, we no longer had an impairment. Therefore, we were not required to record a write-down of our natural gas and oil properties under the full-cost method of accounting in the Current Quarter.

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 $6.0 billion, net of tax.

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.

2. Financial Instruments and Hedging Activities

Natural Gas and Oil Derivatives

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 our risk management objectives. As of September 30, 2009 and December 31, 2008, our natural gas and oil derivative instruments were comprised of the following types of instruments:

- Swaps: Chesapeake receives a fixed price and pays a floating market price to the counterparty for the hedged commodity.

- Collars: These instruments 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 put and the call strike price, no payments are due from either party. On occasion, we make a three-way collar by selling an additional put option with the collar in exchange for a more favorable strike price on the collar. This eliminates the counterparty's downside exposure below the second put option.

- 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.

- 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.

- 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 either party.

- 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 either party.

- Basis protection swaps: These instruments are arrangements that guarantee a price differential to NYMEX for natural gas from a specified delivery point. For non-Appalachian Basin 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 ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

The estimated fair values of our natural gas and oil derivative instruments as of September 30, 2009 and December 31, 2008 are provided below. The associated carrying values of these instruments are equal to the estimated fair values.

	September 30, 2009		December 31, 2008	
	Volume Hedged	Fair Value ($ in millions)	Volume Hedged	Fair Value ($ in millions)
Natural gas (bbtu):				
Fixed-price natural gas swaps	192,026	$ 344	466,800	$ 863
Fixed-price natural gas collars	127,290	205	457,715	402
Fixed-price natural gas knockout swaps	95,010	53	532,660	141
Natural gas call options	522,165	(125)	551,555	(178)
Natural gas put options	(82,200)	(43)	(73,000)	(39)
Natural gas basis protection swaps	140,328	(45)	219,487	93
Total natural gas	994,619	$ 389	2,155,217	$ 1,282
Oil (mbbls):				
Fixed-price oil swaps	(230)	—	(310)	31
Fixed-price oil collars	—	—	730	5
Fixed-price oil knockout swaps	7,860	50	12,248	19
Fixed-price oil cap-swaps	—	—	362	3
Oil call options	11,515	(55)	19,355	(35)
Total oil	19,145	$ (5)	32,385	$ 23
Total estimated fair value[(a)]		$ 384		$ 1,305

(a) After adjusting for $392 million and $736 million of unrealized premiums, the value to be realized for these derivatives as of September 30, 2009 and December 31, 2008 was $776 million and $2.041 billion, respectively.

Pursuant to ASC 815, certain derivatives qualify for designation as cash flow hedges. Following these provisions, 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 accumulated other comprehensive income until the hedged item is recognized in earnings as the physical transactions being hedged occur. Any change in fair value resulting from ineffectiveness is currently recognized in natural gas and oil sales as unrealized gains (losses). 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 natural gas and oil sales. Realized gains (losses) are included in natural gas and oil sales in the month of related production.

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. 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 ASC 815. 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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The components of natural gas and oil sales for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	($ in millions)			
Natural gas and oil sales	$ 785	$ 2,036	$ 2,280	$ 5,961
Realized gains (losses) on natural gas and oil derivatives	687	(246)	1,802	(454)
Unrealized gains (losses) on non-qualifying natural gas and oil derivatives	(278)	4,543	(484)	134
Unrealized gains (losses) on ineffectiveness of cash flow hedges	(7)	75	83	(54)
Total natural gas and oil sales	$ 1,187	$ 6,408	$ 3,681	$ 5,587

Based upon the market prices at September 30, 2009, we expect to transfer approximately $340 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 September 30, 2009 are expected to mature by December 31, 2022.

We began 2009 with six secured hedging facilities, each of which permitted 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 of the facilities were collateralized by certain of our natural gas and oil properties that did not secure any of our other obligations. On June 11, 2009, we entered into a multi-counterparty hedge facility with 13 counterparties that have committed to provide approximately 3.9 tcfe of trading capacity and an aggregate mark-to-market capacity of $10.4 billion under the terms of the facility. The new multi-counterparty facility was intended to consolidate and replace the six secured hedge facilities. As of September 30, 2009, there were trades outstanding on three of the six secured hedge facilities with a fair value of $86 million, and trades covering 122.9 bcfe had been novated into the multi-counterparty facility. As of November 6, 2009, all remaining trades had been novated and pledged collateral transferred to the multi-counterparty facility, resulting in 905.7 bcfe hedged and collateral value of approximately $4.1 billion. These trades will continue to be subject to pre-existing exposure fees, if any, but we are not required to pay an exposure fee for any new trades in the multi-counterparty facility.

The multi-counterparty facility allows us to enter into cash-settled natural gas and oil price and basis hedges with the counterparties. Our obligations under the multi-counterparty facility are secured by natural gas and oil proved reserves, the value of which must cover the fair value of the transactions outstanding under the facility by at least 1.65 times, and guarantees by our subsidiaries that also guarantee our corporate revolving bank credit facility and indentures. The counterparties' obligations under the facility must be secured by cash or short-term U.S. Treasury instruments to the extent that any mark-to-market amounts they owe to Chesapeake exceed defined thresholds. The maximum volume-based trading capacity under the facility is governed by the expected production of the pledged reserve collateral, and volume-based trading limits are applied separately to price and basis hedges. In addition, there are volume-based sub-limits for natural gas and oil hedges. Chesapeake has significant flexibility with regard to releases and/or substitutions of pledged reserves, provided that certain collateral coverage and other requirements are met. The facility does not have a maturity date. Counterparties to the agreement have the right to cease trading with the company on a prospective basis as long as obligations associated with any existing trades in the facility continue to be satisfied in accordance with the terms of the agreement.

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To mitigate our exposure to the fluctuation in prices of diesel fuel which is used in our exploration and development activities, we have entered into diesel swaps from October 2009 to March 2010 for a total of 19,800,000 gallons with an average fixed price of $1.58 per gallon. Chesapeake pays the fixed price and receives floating price. The fair value of these swaps as of September 30, 2009 was an asset of $6 million.

Interest Rate Derivatives

To mitigate our exposure to volatility in interest rates related to our senior notes and bank credit facilities, we enter into interest rate derivatives. As of September 30, 2009 and December 31, 2008, our interest rate derivative instruments were comprised of the following types of instruments:

- Swaps: Chesapeake enters into fixed-to-floating interest rate swaps (we receive a fixed interest rate and pay a floating market rate) to mitigate our exposure to changes in the fair value of our senior notes. We enter into floating-to-fixed interest rate swaps (we receive a floating market rate and pay a fixed interest rate) to manage our interest rate exposure related to our bank credit facilities borrowings.

- Collars: These instruments contain a fixed floor rate (floor) and a ceiling rate (cap). If the floating rate is above the cap, we have a net receivable from the counterparty and if the floating rate is below the floor, we have a net payable to the counterparty. If the floating rate is between the floor and the cap, there is no payment due from either party. Collars are used to manage our interest rate exposure related to our bank credit facilities borrowings.

- Call options: Occasionally we sell call options for a premium when we think it is more likely that the option will expire unexercised. The option allows the counterparty to terminate an open swap at a specific date.

- Swaptions: Occasionally we sell an option to a counterparty for a premium which allows the counterparty to enter into a swap with us on a specific date.

The notional amount of debt hedged and the estimated fair value of our interest rate derivatives outstanding as of September 30, 2009 and December 31, 2008 are provided below.

	September 30, 2009		December 31, 2008	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	($ in millions)			
Interest rate				
Swaps	$ 3,325	$ (74)	$ 1,575	$ 88
Collars	250	(8)	800	(35)
Call options	250	(9)	750	(105)
Swaptions	—	—	750	(10)
Totals	$ 3,825	$ (91)	$ 3,875	$ (62)

For interest rate derivative instruments designated as fair value hedges (in accordance with ASC 815), 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 currently reported in the condensed consolidated statements of operations as unrealized gains (losses) within interest expense.

Gains or losses from interest rate derivative transactions are reflected as adjustments to interest expense in the condensed consolidated statements of operations. The components of interest expense for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	($ in millions)			
Interest expense on senior notes	$ 195	$ 171	$ 572	$ 472
Interest expense on credit facilities	18	23	47	83
Capitalized interest	(153)	(166)	(467)	(390)
Realized (gains) losses on interest rate derivatives	(7)	5	(19)	1
Unrealized (gains) losses on interest rate derivatives	(20)	(8)	(106)	(9)
Amortization of loan discount and other	10	9	25	29
Total interest expense	$ 43	$ 34	$ 52	$ 186

Our qualifying interest rate swaps are considered 100% effective and therefore no ineffectiveness was recorded for the periods presented above.

Gains and losses related to terminated qualifying interest rate derivative transactions will be amortized as an adjustment to interest expense over the remaining term of the related senior notes. Over the next eleven years we will be realizing $109 million in gains related to such trades.

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 ASC 815. The fair value of the cross currency swap is recorded on the condensed consolidated balance sheet as an asset of $44 million at September 30, 2009. The euro-denominated debt in notes payable has been adjusted to $878 million at September 30, 2009 using an exchange rate of $1.4630 to €1.00.

Additional Disclosures About Derivative Instruments and Hedging Activities

In accordance with ASC 815 and ASC 210, 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. Derivative instruments reflected as current in the condensed consolidated balance sheet represent the estimated fair value of derivatives scheduled to settle over the next twelve months based on market prices/rates as of the balance sheet date. The derivative settlement amounts are not due until the month in which the related underlying hedged transaction occurs.

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Pursuant to ASC 815, the following table sets forth the fair value of each classification of derivative instrument as of September 30, 2009 on a gross basis without regard to same-counterparty netting:

	September 30, 2009	
	Balance Sheet Location	**Fair Value**
		($ in millions)
ASSET DERIVATIVES:		
Derivatives designated as hedging instruments under ASC 815:		
Commodity contracts	Short-term derivative instruments	$ 378
Commodity contracts	Long-term derivative instruments	25
Foreign exchange contracts	Long-term derivative instruments	44
Total		447
Derivatives not designated as hedging instruments under ASC 815:		
Commodity contracts	Short-term derivative instruments	237
Commodity contracts	Long-term derivative instruments	51
Interest rate contracts	Long-term derivative instruments	10
Total		298
LIABILITY DERIVATIVES:		
Derivatives designated as hedging instruments under ASC 815:		
Commodity contracts	Short-term derivative instruments	(5)
Interest rate contracts	Long-term derivative instruments	(30)
Total		(35)
Derivatives not designated as hedging instruments under ASC 815:		
Commodity contracts	Short-term derivative instruments	(73)
Commodity contracts	Long-term derivative instruments	(223)
Interest rate contracts	Short-term derivative instruments	(27)
Interest rate contracts	Long-term derivative instruments	(44)
Total		(367)
Total derivative instruments		$ 343

A consolidated summary of the effect of derivative instruments on the condensed consolidated statements of operations for the three and nine months ended September 30, 2009 is provided below, separating fair value, cash flow and non-qualifying derivatives (as defined by ASC 815).

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

Fair Value Derivatives	**Location of Gain (Loss)**	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**
Interest rate contracts	Interest expense[(a)]	$ 13	$ 31

(a) Interest expense on the hedged items for the Current Quarter and the Current Period was $33 million and $66 million, respectively, which is included in interest expense on the condensed consolidated statement of operations.

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 designated as cash flow derivatives ($ in millions):

Cash Flow Derivatives	Location of Gain (Loss)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Gain (Loss) Recognized in AOCI (Effective Portion)			
Commodity contracts	AOCI	$ 107	$ 819
Foreign exchange contracts	AOCI	1	79
		$ 108	$ 898
Gain (Loss) Reclassified from AOCI (Effective Portion)			
Commodity contracts	Natural gas and oil sales	$ 381	$ 994
Foreign exchange contracts	Other income	—	—
		$ 381	$ 994
Gain (Loss) Recognized (Ineffective Portion)[(a)]			
Commodity contracts	Natural gas and oil sales	$ (7)	$ 83
Foreign exchange contracts	Other income	—	—
		$ (7)	$ 83

(a) The amount of gain (loss) recognized in net income (loss) represents the ineffective portion of our cash flow derivatives.

The following table presents the gain (loss) recognized in net income (loss) for instruments not qualifying as cash flow or fair value derivatives ($ in millions):

Non-Qualifying Derivatives	Location of Gain (Loss)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Commodity contracts	Natural gas and oil sales	$ 28	$ 324
Interest rate contracts	Interest expense	14	94
	Total	$ 42	$ 418

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 September 30, 2009, our commodity and interest rate derivative instruments were spread among 14 counterparties. Additionally, our multi-counterparty secured hedging facility described above requires our counterparties to secure their natural gas and oil hedging obligations in excess of defined thresholds. We now use this facility for all of our commodity hedging.

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 and the Current Period, we recognized a nominal amount and $13 million, respectively, of bad debt expense related to potentially uncollectible receivables.

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3. Contingencies and Commitments

Litigation

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. Following the appointment of a lead plaintiff and counsel, the plaintiff filed an amended complaint on September 11, 2009 alleging that the registration statement for the offering contained material misstatements and omissions and seeking damages under Sections 11, 12 and 15 of the Securities Act of 1933 of an unspecified amount and rescission. The action was transferred to the U.S. District Court for the Western District of Oklahoma on October 13, 2009. 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 the securities case.

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 to compensation of the company's CEO. On August 20, 2009, the court denied the inspection demand, dismissed the petition and entered judgment in favor of Chesapeake. The shareholder is appealing the court's ruling.

Three derivative actions were filed in the District Court of Oklahoma County, Oklahoma on April 28, May 7, and May 20, 2009 against the company's directors alleging breaches of fiduciary duties relating to compensation of the company's CEO and alleged insider trading, among other things, and seeking unspecified damages, equitable relief and disgorgement. These three derivative actions were consolidated and a Consolidated Derivative Shareholder Petition was filed on June 23, 2009. Chesapeake is named as a nominal defendant. Chesapeake filed a motion to dismiss the petition on August 7, 2009. The court has not set a date to hear the motion.

It is inherently difficult to predict the outcome of litigation, and we are currently unable to estimate the amount of any potential liabilities associated with the foregoing cases, which are all in preliminary stages.

Chesapeake is also involved in various other lawsuits and disputes incidental to its business operations, including commercial disputes, personal injury claims, claims for underpayment of royalties, property damage claims and contract actions. With regard to the latter, several mineral or leasehold owners have filed lawsuits against us seeking specific performance to require us to acquire their oil and natural gas interests and pay acreage bonus payments, damages based on breach of contract and/or, in certain cases, punitive damages based on alleged fraud. The company has satisfactorily resolved several of the suits but some remain pending. The remaining leasehold acquisition cases are in various stages of discovery. The company believes that it has substantial defenses to the claims made in all these cases.

The company records an associated liability when a loss is probable and the amount is reasonably estimable. Although the outcome of litigation cannot be predicted with certainty, management is of the opinion that no pending or threatened lawsuit or dispute incidental to its business operations is likely to have a material adverse effect on the company's consolidated financial position, results of operations or cash flows. The final resolution of such matters could exceed amounts accrued, however, and actual results could differ materially from management's estimates.

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 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. The agreement contains a cap on cash salary and bonus compensation for the next five years at 2008 levels. 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 the CEO'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, 2012. The agreements with our COO, CFO and other executive vice presidents contain a cap on cash salary for the three-year term of the agreement. In addition, annual cash bonuses will not exceed the sum of the individual EVP's cash bonus compensation for (a) the last half of 2008 and (b) the first half of 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 receive a lump sum payment equal to 26 weeks of cash salary 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. The agreements also provide for a 2008 incentive award payable in four equal annual installments, the first of which was paid on September 30, 2009. The payment of each installment of the award is subject to the individual's continued employment on the date of payment, except that the unpaid installments of the award would be accelerated and paid in lump sum in the event of a change of control or a termination by the executive for good reason, as defined in the agreements.

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 September 30, 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 is being 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 payment equal to the fair market rental value of the rigs as determined at the time of renewal. Commitments related to rig lease payments are not recorded in the accompanying condensed consolidated balance sheets. As of September 30, 2009, the minimum aggregate future rig lease payments were approximately $539 million. As of September 30, 2009, Chesapeake's drilling subsidiary had committed to acquire one rig by the end of 2009 and had incurred costs of $9 million as of that date. The total remaining cost of the rig is estimated to be approximately $5 million. Our intent is to sell and lease back owned rigs when acceptable leasing arrangements are available to us.

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 $47 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 is being amortized to marketing, gathering and compression 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. Commitments related to compressor lease payments are not recorded in the accompanying condensed consolidated balance sheets. As of September 30, 2009, the minimum aggregate future compressor lease payments were approximately $355 million. As of September 30, 2009, 218 new compressors were on order for approximately $92 million. Our intent is to sell and lease back owned compressors when acceptable leasing arrangements are available to us.

Real Estate Surface Asset Leases

In April 2009, we financed 113 real estate surface assets in the Barnett Shale area in and around Fort Worth, Texas for approximately $145 million and entered into a 40-year master lease agreement under which we agreed to lease the sites for approximately $15 million to $27 million annually. These lease transactions were recorded as a financing lease and the cash received was recorded with an offsetting long-term liability on the condensed consolidated balance sheet. As of September 30, 2009, the minimum aggregate future lease payments were approximately $862 million. Chesapeake has the option to repurchase up to a specified number of assets at any time during the term of the lease.

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 September 30, 2009, excluding demand charges for pipeline projects that are currently seeking regulatory approval, were as follows ($ in millions):

2009	$ 60
2010	231
2011	251
2012	240
2013	222
After 2013	1,278
Total	$ 2,282

Drilling Contracts

Currently, Chesapeake has contracts with various drilling contractors to lease approximately 20 rigs with terms of one to three years. These commitments are not recorded in the accompanying condensed consolidated balance sheets. As of September 30, 2009, the aggregate drilling rig commitment was approximately $175 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 are based on market prices at the time of production and extend over 11 to 15 year terms. As of September 30, 2009, we were obligated to purchase 468 bcfe under the terms of the VPPs. We resell the natural gas and oil we purchase at market prices.

Other Commitments

In the Current Period, we financed one of our buildings for approximately $54 million with a five-year term loan which has a floating rate of prime plus 275 basis points. At our option, we may prepay in full without penalty beginning in year four. The payment obligation is guaranteed by Chesapeake.

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. At September 30, 2009, Mountain Drilling owed Chesapeake $19 million under this agreement.

We invested in Ventura Refining and Transmission LLC in early 2007 in an effort to improve the market for our oil and condensate production in western Oklahoma. 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. During the Current Period, we paid an additional $17 million to fund various costs associated with Ventura's operations. These payments were expensed as incurred.

4. Net Income Per Share

ASC 260, *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. ASC 260 requires a reconciliation of the numerator and denominator of the basic and diluted EPS computations. The following securities and associated adjustments to net income comprised of dividends and loss on conversions/exchanges were not included in the calculation of diluted earnings per share, as the effect was antidilutive:

	Shares (in millions)	Net Income Adjustments ($ in millions)
Three Months Ended September 30, 2009:		
Common stock equivalent of our preferred stock outstanding:		
5.00% cumulative convertible preferred stock (series 2005)	—	$ —
5.00% cumulative convertible preferred stock (series 2005B)	5	$ 3
4.50% cumulative convertible preferred stock	6	$ 3
Three Months Ended September 30, 2008:		
Common stock equivalent of our preferred stock outstanding prior to conversion:		
5.00% cumulative convertible preferred stock (series 2005B)	1	$ 13
4.50% cumulative convertible preferred stock	1	$ 12
Nine Months Ended September 30, 2009:		
Employee stock options	1	$ —
Restricted stock	5	$ —
Common stock equivalent of our preferred stock outstanding:		
5.00% cumulative convertible preferred stock (series 2005)	—	$ —
5.00% cumulative convertible preferred stock (series 2005B)	5	$ 8
4.50% cumulative convertible preferred stock	6	$ 9
Common stock equivalent of our preferred stock outstanding prior to conversion:		
4.125% cumulative convertible preferred stock	—	$ —
6.25% mandatory convertible preferred stock	1	$ 1
Nine Months Ended September 30, 2008:		
Common stock equivalent of our preferred stock outstanding prior to conversion:		
5.00% cumulative convertible preferred stock (series 2005B)	5	$ 62
4.50% cumulative convertible preferred stock	2	$ 14

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For the Current Period 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 net loss to common stockholders.

Reconciliations for the Current Quarter, Prior Quarter and Prior Period are as follows:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in millions, except per share data)		
Three Months Ended September 30, 2009:			
Basic EPS:			
Income available to Chesapeake common stockholders	$ 186	619	$ 0.30
Effect of Dilutive Securities			
Employee stock options	—	1	
Restricted stock	—	6	
Diluted EPS income available to Chesapeake common stockholders and assumed conversions	$ 186	626	$ 0.30
Three Months Ended September 30, 2008:			
Basic EPS:			
Income available to Chesapeake common stockholders	$ 3,291	554	$ 5.94
Effect of Dilutive Securities			
Assumed conversion as of the beginning of the period of preferred shares outstanding during the period:			
Common shares assumed issued for 4.50% cumulative convertible preferred stock	3	6	
Common shares assumed issued for 5.00% cumulative convertible preferred stock (series 2005B)	3	5	
Common shares assumed issued for 6.25% mandatory convertible preferred stock	—	1	
Effect of contingent convertible senior notes outstanding during the period	9	13	
Employee stock options	—	2	
Restricted stock	—	7	
Diluted EPS income available to Chesapeake common stockholders and assumed conversions	$ 3,306	588	$ 5.62
Nine Months Ended September 30, 2008:			
Basic EPS:			
Income available to Chesapeake common stockholders	$ 1,506	523	$ 2.88
Effect of Dilutive Securities			
Assumed conversion as of the beginning of the period of preferred shares outstanding during the period:			
Common shares assumed issued for 4.50% cumulative convertible preferred stock	8	6	
Common shares assumed issued for 5.00% cumulative convertible preferred stock (series 2005B)	8	5	
Common shares assumed issued for 6.25% mandatory convertible preferred stock	2	1	
Effect of contingent convertible senior notes outstanding during the period	12	13	
Employee stock options	—	2	
Restricted stock	—	7	
Diluted EPS income available to Chesapeake common stockholders and assumed conversions	$ 1,536	557	$ 2.76

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 nine months ended September 30, 2009 and 2008:

	2009	2008
	(in thousands)	
Shares issued at January 1	607,953	511,648
Stock option exercises	429	1,473
Restricted stock issuances (net of forfeitures)	3,940	4,352
Convertible note exchanges	6,707	—
Preferred stock conversions/exchanges	1,422	12,673
Common stock issued for the purchase of proved and unproved properties and leasehold	24,823	—
Common stock issuances	—	51,750
Shares issued at September 30	645,274	581,896

During the Current Period, holders of our 2.25% Contingent Convertible Senior Notes due 2038 exchanged approximately $238 million in aggregate principal amount for an aggregate of 6,707,321 shares of our common stock in privately negotiated exchanges.

During the Current Period, we issued 24,822,832 shares of common stock, valued at $429 million, for the purchase of proved and unproved properties and leasehold pursuant to an acquisition shelf registration statement.

Preferred Shares

The following is a summary of the changes in our preferred shares outstanding for the nine months ended September 30, 2009 and 2008:

	4.50%	5.00% (2005B)	5.00% (2005)	6.25%	4.125%
			(in thousands)		
Shares outstanding at January 1, 2009	2,559	2,096	5	144	3
Conversion/exchange of preferred for common stock	—	—	—	(144)	(3)
Shares outstanding at September 30, 2009	2,559	2,096	5	—	—
Shares outstanding at January 1, 2008	3,450	5,750	5	144	3
Conversion/exchange of preferred for common stock	(891)	(3,654)	—	—	—
Shares outstanding at September 30, 2008	2,559	2,096	5	144	3

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.

On June 15, 2009, we converted all of our outstanding 6.25% Mandatory Convertible Preferred Stock (143,768 shares) into 1,239,538 shares of common stock pursuant to the company's mandatory conversion rights.

During the Prior Period, holders of our 5.0% Cumulative Convertible Preferred Stock (Series 2005B) exchanged 3,654,385 shares for 10,443,642 shares of common stock in privately negotiated exchanges.

During the Prior Period, a holder of our 4.50% Cumulative Convertible Preferred Stock exchanged 891,000 shares for 2,227,750 shares of our common stock in a privately negotiated transaction.

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, marketing, gathering and compression expenses, service operations expense or restructuring costs. We recorded the following stock-based compensation during the Current Quarter, the Prior Quarter, the Current Period and the Prior Period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	($ in millions)			
Natural gas and oil properties	$ 27	$ 30	$ 85	$ 81
General and administrative expenses	22	26	60	66
Production expenses	8	8	26	22
Marketing, gathering and compression expenses	4	3	12	8
Service operations expense	2	2	6	4
Restructuring costs	—	—	9	—
Total	$ 63	$ 69	$ 198	$ 181

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 Period is presented below:

	Number of Unvested Restricted Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested shares as of January 1, 2009	21,622	$ 38.85
Granted	7,956	$ 18.61
Vested	(8,944)	$ 36.51
Forfeited	(930)	$ 35.14
Unvested shares as of September 30, 2009	19,704	$ 31.91

The aggregate intrinsic value of restricted stock vested during the Current Period was approximately $186 million based on the stock price at the time of vesting.

As of September 30, 2009, there was $509 million of total unrecognized compensation cost related to unvested restricted stock. The cost is expected to be recognized over a weighted average period of 2.58 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 and the Current Period, we recognized a reduction in tax benefits related to restricted stock of $36 million and $48 million, respectively. During the Prior Quarter and the Prior Period, we recognized excess tax benefits related to restricted stock of $18 million and $27 million, respectively. The reduction in tax benefits and the excess tax benefits were recorded as adjustments to additional paid-in capital and deferred income taxes.

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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 all are currently fully vested.

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

	Number of Shares Underlying Options (in thousands)	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	$ 8.13	3.59	$ 23
Exercised	(429)	$ 7.36		$ 7
Expired	(11)	$ 6.47		
Outstanding at September 30, 2009	2,362	$ 8.28	2.96	$ 48
Exercisable at September 30, 2009	2,362	$ 8.28	2.96	$ 48

(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.

During the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, we recognized excess tax benefits related to stock options of $1 million, $3 million, $1 million and $15 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 at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008 (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]	878	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]	888	1,126
General corporate revolving bank credit facility	1,618	3,474
CMD revolving bank credit facility	—	460
CMP revolving bank credit facility	12	—
Discount on senior notes[c]	(991)	(1,094)
Interest rate derivatives[d]	80	211
Total notes payable and long-term debt	$ 12,073	$ 13,175

(a) The principal amount shown is based on the dollar/euro exchange rate of $1.4630 to €1.00 and $1.3919 to €1.00 as of September 30, 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 third 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 fourth 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	$ 64.36	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 the provisions of ASC 470-20, *Debt with Conversion and Other Options*. Discount at September 30, 2009 and December 31, 2008 included $859 million and $1.009 billion, respectively, associated with the equity component of our contingent convertible senior notes.

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

Senior Notes

Our senior notes are unsecured senior obligations of Chesapeake and 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. Our senior note obligations are guaranteed by certain of our wholly-owned subsidiaries. See Note 13 for condensed consolidating financial information regarding our guarantor and non-guarantor subsidiaries. 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 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.

During the Current Period, holders of our 2.25% Contingent Convertible Senior Notes due 2038 exchanged approximately $238 million in aggregate principal amount for an aggregate of 6,707,321 shares of our common stock in privately negotiated exchanges.

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

On January 1, 2009, we adopted and applied retrospectively the provisions of ASC 470-20, *Debt with Conversion and Other Options*. 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. ASC 470-20 requires us to account for the liability and equity components of our 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). 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 allocation to the equity component of the convertible notes was $845 million (net of tax) at 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 ASC 470-20, we also capitalized additional interest which largely offset the increase in interest expense.

The following table summarizes the effect of the change in accounting principle related to our contingent convertible notes on the condensed consolidated balance sheet:

	December 31, 2008		
	Previously Reported	Adjustment	Adjusted
		($ in millions)	
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 contingent convertible notes on the condensed consolidated statements of operations ($ in millions, except per share data):

	Previously Reported	Adjustment	Adjusted
Three Months Ended September 30, 2008:			
Depreciation and amortization of other assets	$ 48	$ —	$ 48
Interest expense	$ 48	$ (14)	$ 34
Income tax expense (benefit)	$ 2,074	$ 5	$ 2,079
Net income (loss)	$ 3,313	$ 9	$ 3,322
Weighted average common and common equivalent shares outstanding – assuming dilution (in millions)	588	—	588
Earnings (loss) per common share:			
Basic	$ 5.93	$ 0.01	$ 5.94
Diluted	$ 5.61	$ 0.01	$ 5.62

	Previously Reported	Adjustment	Adjusted
Nine Months Ended September 30, 2008:			
Depreciation and amortization of other assets	$ 125	$ (1)	$ 124
Interest expense	$ 212	$ (26)	$ 186
Income tax expense (benefit)	$ 991	$ 11	$ 1,002
Net income (loss)	$ 1,584	$ 16	$ 1,600
Weighted average common and common equivalent shares outstanding – assuming dilution (in millions)	557	—	557
Earnings (loss) per common share:			
Basic	$ 2.85	$ 0.03	$ 2.88
Diluted	$ 2.73	$ 0.03	$ 2.76

The following table summarizes the effect of the change in accounting principle related to our contingent convertible notes on the condensed consolidated statement of cash flows for the nine months ended September 30, 2008 ($ in millions):

	Previously Reported	Adjustment	Adjusted
Nine Months Ended September 30, 2008:			
Cash flows provided by operating activities	$ 4,305	$ 82	$ 4,387
Cash flows used in investing activities	$ (8,201)	$ (82)	$ (8,283)
Cash flows provided by financing activities	$ 5,859	$ —	$ 5,859

Bank Credit Facilities

We utilize three bank credit facilities, described below, as sources of liquidity.

	General Corporate Credit Facility	CMD Credit Facility	CMP Credit Facility
		($ in millions)	
Borrowing capacity	$ 3,500	$ 250	$ 500
Maturity date	November 2012	September 2012	September 2012
Borrowers	Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C.	Chesapeake Midstream Operating, L.L.C. (CMO)	Chesapeake Midstream Partners, L.L.C. (CMP)
Facility structure	Senior secured revolving	Senior secured revolving	Senior secured revolving
Amount outstanding as of September 30, 2009	$ 1,618	—	$ 12
Letters of credit outstanding as of September 30, 2009	$ 11	—	—

Our credit facilities do not contain material adverse change or adequate assurance covenants. Although the applicable interest rates under our general corporate credit facility fluctuate slightly based on our long-term senior unsecured credit ratings, none 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.

General Corporate Credit Facility

Our $3.5 billion syndicated revolving bank credit facility is used for general corporate purposes. 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, 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% 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% 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%. 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 (excluding discount on senior notes) 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. As defined by the credit facility agreement, our indebtedness to total capitalization ratio was 0.41 to 1 and our indebtedness to EBITDA ratio was 3.48 to 1 at September 30, 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 Chesapeake and its restricted subsidiaries with an outstanding principal amount in excess of $75 million.

The facility is fully and unconditionally guaranteed, on a joint and several basis, by Chesapeake and all of our other wholly-owned restricted subsidiaries.

CMD Credit Facility

Our Chesapeake Midstream Development, L.P. (CMD) $250 million syndicated revolving bank credit facility is used to fund capital expenditures to build natural gas gathering and other systems for our drilling program and for general corporate purposes associated with our midstream operations. Borrowings under the CMD credit facility are secured by all of the assets of the wholly-owned subsidiaries (the restricted subsidiaries) of CMD, itself a wholly-owned subsidiary of Chesapeake, 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 LIBOR plus 1.00%, all of which would be subject to a margin that varies from 2.00% to 2.75% per annum according to the most recent indebtedness to EBITDA ratio (as defined) or (ii) the LIBOR plus a margin that varies from 3.00% to 3.75% 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 of 0.50% 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 CMD credit facility agreement contains various covenants and restrictive provisions which limit the ability of CMD and its restricted 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 3.00 to 1. As defined by the credit facility agreement, our indebtedness to EBITDA ratio was 0.01 to 1 and our EBITDA to interest expense coverage ratio was 6.62 to 1 at September 30, 2009. If CMD or its restricted 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 CMD facility could be declared immediately due and payable. The CMD credit facility agreement also has cross default provisions that apply to other indebtedness CMD and its restricted subsidiaries may have with an outstanding principal amount in excess of $15 million.

CMP Credit Facility

Our Chesapeake Midstream Partners, L.L.C. (CMP) $500 million syndicated revolving bank credit facility was established concurrent with the midstream joint venture we formed on September 30, 2009 (see Note 8 for discussion regarding the midstream joint venture). As a result of that transaction, our existing CMD credit facility was amended and restated. Borrowings under the CMP credit facility are secured by all of the assets of the companies organized under CMP, which is 50% owned by Chesapeake and 50% owned by our joint venture partner Global Infrastructure Partners, 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 LIBOR plus 1.00%, all of which would be subject to a margin that varies from 2.00% to 2.75% per annum according to the most recent indebtedness to EBITDA ratio (as defined) or (ii) the LIBOR plus a margin that varies from 3.00% to 3.75% 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 of 0.50% 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 CMP 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 3.00 to 1. As defined by the credit facility agreement, our indebtedness to EBITDA ratio was 0.09 to 1 and our EBITDA to interest expense coverage ratio was 17.49 to 1 at September 30, 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 CMP facility could be declared immediately due and payable. The CMP 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.

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7. Segment Information

In accordance with ASC 280, *Segment Reporting*, 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 marketing, gathering and compression of 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. Our drilling rig and trucking service operations are presented in “Other Operations” in the table below.

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 $716 million, $1.591 billion, $2.009 billion and $4.667 billion for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period. The following table presents selected financial information for Chesapeake’s operating segments.

	Exploration and Production	Midstream	Other Operations	Intercompany Eliminations	Consolidated Total
			($ in millions)		
Three Months Ended September 30, 2009:					
Revenues	$ 1,187	$ 1,291	$ 69	$ (736)	$ 1,811
Intersegment revenues	—	(716)	(20)	736	—
Total revenues	$ 1,187	$ 575	$ 49	$ —	$ 1,811
Income (loss) before income taxes	$ 431	$ (111)	$ (19)	$ 6	$ 307
Three Months Ended September 30, 2008 (Adjusted):					
Revenues	$ 6,408	$ 2,629	$ 164	$ (1,710)	$ 7,491
Intersegment revenues	—	(1,591)	(119)	1,710	—
Total revenues	$ 6,408	$ 1,038	$ 45	$ —	$ 7,491
Income (loss) before income taxes	$ 5,384	$ 19	$ 21	$ (23)	$ 5,401
Nine Months Ended September 30, 2009:					
Revenues	$ 3,681	$ 3,669	$ 338	$ (2,208)	$ 5,480
Intersegment revenues	—	(2,009)	(199)	2,208	—
Total revenues	$ 3,681	$ 1,660	$ 139	$ —	$ 5,480
Income (loss) before income taxes	$ (8,354)	$ (82)	$ (53)	$ (1)	$ (8,490)
Nine Months Ended September 30, 2008 (Adjusted):					
Revenues	$ 5,587	$ 7,601	$ 467	$ (5,007)	$ 8,648
Intersegment revenues	—	(4,667)	(340)	5,007	—
Total revenues	$ 5,587	$ 2,934	$ 127	$ —	$ 8,648
Income (loss) before income taxes	$ 2,555	$ 49	$ 67	$ (69)	$ 2,602
As of September 30, 2009:					
Total assets	$ 25,612	$ 7,240	$ 624	$ (3,757)	$ 29,719
As of December 31, 2008 (Adjusted):					
Total assets	$ 35,415	$ 3,416	$ 465	$ (703)	$ 38,593

8. Midstream Joint Venture

On September 30, 2009, we formed a joint venture with Global Infrastructure Partners (GIP), a New York-based private equity fund, to own and operate natural gas midstream assets. As part of the transaction, Chesapeake contributed certain natural gas gathering and processing assets to a new entity, Chesapeake Midstream Partners, L.L.C. (CMP), and GIP purchased a 50% interest in CMP. Chesapeake retained the remaining 50% interest in CMP and received a $588 million cash distribution from CMP. The assets we contributed to the joint venture were substantially all of our midstream assets in the Barnett Shale and also the majority of our non-shale midstream assets in the Arkoma, Anadarko, Delaware and Permian Basins. The financial results of CMP will be consolidated and GIP's 50% ownership interest is reflected as a noncontrolling interest as of September 30, 2009 in our consolidated financial statements.

CMP will focus on unregulated business activities in service to both Chesapeake and third-party natural gas producers and its revenues will be generated almost entirely from fixed fee-based arrangements for gathering, compression, dehydration and treating services. CMP has entered into various agreements with Chesapeake, including a long-term gas gathering agreement at rates consistent with current market pricing. CMP will operate the contributed assets. Certain Chesapeake employees will provide services to CMP through an employee secondment agreement. In return for certain cost reimbursements, CMP will utilize various support functions within Chesapeake, including accounting, human resources and information technology.

Subsidiaries of our wholly-owned subsidiary CMD will continue to operate our midstream assets outside of the CMP joint venture. These include natural gas gathering assets in the Fayetteville Shale, Haynesville Shale, Marcellus Shale and other areas in Appalachia.

Concurrent with GIP's funding of its interest in the joint venture, CMP closed a new $500 million secured revolving bank credit facility to partially fund capital expenditures associated with the building of additional natural gas gathering systems and for general corporate purposes. Additionally, we amended and restated the existing midstream lending agreement to reduce the total capacity from $460 million to $250 million, among other changes. This separate secured revolving bank credit facility supports CMD's continuing midstream activities. These facilities are described in Note 6.

In the Current Quarter, we recorded an $82 million impairment of certain of the gathering systems contributed to CMP prior to the formation of the joint venture, and we expensed $4 million of debt issuance costs associated with the portion of our $460 million credit facility that was reduced to $250 million. The combined impairment of $86 million was included in impairment of natural gas and oil properties and other assets on our condensed consolidated statement of operations. Additionally, an estimated post-closing adjustment related to the joint venture transaction was recorded in the Current Quarter and is expected to be finalized by December 31, 2009.

The $851 million noncontrolling interest included in our consolidated equity at September 30, 2009 represents GIP's 50% interest in the net assets of CMP, which were recorded by CMP at Chesapeake's historical cost basis. This noncontrolling interest includes the $588 million GIP contributed in exchange for a 50% ownership interest in CMP plus $263 million of Chesapeake equity allocated to GIP pursuant to ASC 810 in order to properly reflect GIP's 50% interest in the carrying value of CMP's net assets.

9. Natural Gas and Oil Properties

Volumetric Production Payment

On August 4, 2009, we sold certain Chesapeake-operated long-lived producing assets in South Texas in our fifth volumetric production payment transaction (VPP) for proceeds of $370 million. The assets included proved reserves of approximately 68 bcfe and net production (at the time of sale) of approximately 55 mmcfe per day. For accounting purposes, cash proceeds from this transaction were reflected as a reduction of natural gas and oil properties with no gain or loss recognized and our proved reserves were reduced accordingly.

Joint Ventures

In August 2009, we amended our Haynesville Shale joint venture agreement with Plains Exploration & Production Company (PXP). As part of the amendment, PXP accelerated the payment of its remaining joint venture drilling carries as of September 30, 2009 in exchange for an approximate 10% reduction in the total amount of drilling carry obligations due to Chesapeake and we received cash of $1.1 billion instead of an estimated $1.23 billion in remaining carried drilling costs that PXP would have paid over the next three years under the original agreement. In addition, Chesapeake and PXP agreed to terminate a previous joint venture amendment that granted PXP a one-time option in June 2010 to avoid paying the last $800 million of the drilling carry obligations by conveying 50% of its Haynesville Shale assets to Chesapeake.

During the Current Period, we received the benefit of approximately $959 million in drilling carries associated with the Haynesville ($350 million), Fayetteville ($524 million) and Marcellus ($85 million) joint ventures.

Divestitures

During the Current Period, we sold non-core natural gas and oil assets for proceeds of $278 million.

10. Restructuring

In the Current Period, we restructured our Charleston, West Virginia-based Eastern Division from a regional corporate headquarters to a regional field office consistent with the business model the company uses elsewhere in the country. As a result, we consolidated the management of our Eastern Division land, legal, accounting, information technology, geoscience and engineering departments into our corporate offices in Oklahoma City. The costs of the reorganization include termination benefits, consolidating or closing facilities and relocating employees. In addition, we had certain other workforce reductions that resulted in termination benefits. We expect virtually all costs associated with our restructuring to be paid by year-end 2009.

A summary of Chesapeake's restructuring charges is presented below ($ in millions):

	Restructuring Costs Through September 30, 2009	Restructuring Costs To Be Incurred	Total Restructuring Costs
Restructuring Costs:			
Termination and relocation costs	$ 20	$ 2	$ 22
Acceleration of restricted stock awards	9	—	9
Other associated costs	3	—	3
Total Restructuring Costs	$ 32	$ 2	$ 34

11. Investments

At September 30, 2009, investments accounted for under the equity method totaled $388 million and investments accounted for under the cost method totaled $34 million. Following is a summary of our investments:

	Approximate % Owned	Accounting Method	Carrying Value September 30, 2009	Carrying Value December 31, 2008
			($ in millions)	
Frac Tech Services, Ltd.[a]	20%	Equity	$ 242	$ 223
Chaparral Energy, Inc.[b][c]	32%	Equity	107	152
DHS Drilling Company[b]	47%	Equity	—	19
Sierra Mid-Con, L.P.	49%	Equity	14	12
Gastar Exploration Ltd.[b]	17%	Cost	33	11
Mountain Drilling Company[b]	49%	Equity	—	9
Other	—	Cost/Equity	26	18
			$ 422	$ 444

(a) The carrying value of our investment in Frac Tech is in excess of our underlying equity in net assets by approximately $145 million as of September 30, 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 Period 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 have monitored and 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 condensed 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 $46 million as of September 30, 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.

12. Fair Value Measurements

Effective January 1, 2008, we adopted ASC 820, *Fair Value Measurements and Disclosures* 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 the fair value of assets and liabilities and expands disclosures about fair value measurements.

ASC 820 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.

The following table provides fair value measurement information for financial assets (liabilities) measured at fair value on a recurring basis as of September 30, 2009:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
		($ in millions)		
Financial Assets (Liabilities):				
Cash equivalents	$ 510	$ —	$ —	$ 510
Derivatives, net	$ —	$ 351	$ (8)	$ 343
Investments	$ 33	$ —	$ —	$ 33
Other long-term assets	$ 30	$ —	$ —	$ 30
Long-term debt	$ —	$ —	$ (2,048)	$ (2,048)
Other long-term liabilities	$ (30)	$ —	$ —	$ (30)

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

Cash Equivalents. The fair value of cash equivalents is based on quoted market prices.

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, oil and diesel 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, oil and diesel swaps, have been established utilizing established index prices, volatility curves, discount factors and options pricing models. 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 certain of our long-term debt is based on the face amount of that 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.

A summary of the changes in Chesapeake's assets (liabilities) classified as Level 3 measurements during the Current Period is presented below:

	Derivatives	Debt	Total
		($ in millions)	
Balance of Level 3 as of January 1, 2009	$ 292	$ (1,470)	$ (1,178)
Total gains (losses) (realized/unrealized):			
Included in earnings[a]	566	(128)	438
Included in other comprehensive income (loss)	123	—	123
Purchases, issuances and settlements	(989)	(450)[b]	(1,439)
Transfers in and out of Level 3	—	—	—
Balance of Level 3 as of September 30, 2009	$ (8)	$ (2,048)	$ (2,056)

(a)

	Natural Gas and Oil Sales	Interest Expense
	($ in millions)	
Total gains (losses) related to derivatives included in earnings for the period	$ 398	$ 168
Change in unrealized gains (losses) relating to assets still held at reporting date	$ (380)	$ 149

(b) Amount represents a reduction in debt now recorded at fair value as a result of interest rate swaps that were terminated in the Current Period.

Fair Value of Other Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of ASC 825, *Financial Instruments*. We have determined the estimated fair values by using available market information and valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying values of financial instruments comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. We estimate the fair value of our long-term debt and our convertible preferred stock primarily using quoted market prices. Our carrying amounts for such debt, excluding the impact of interest rate derivatives, at September 30, 2009 and December 31, 2008 were $11.9 billion and $13.0 billion, respectively, compared to approximate fair values of $11.7 billion and $10.5 billion, respectively. The carrying amounts for our convertible preferred stock as of September 30, 2009 and December 31, 2008 were $466 million and $505 million, respectively, compared to approximate fair values of $402 million and $294 million, respectively.

13. 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 senior 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 CMD credit facility and the CMP credit facility referred to in Note 6 each contain a covenant restricting the payment of dividends or distributions or the making of loans to Chesapeake.

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 September 30, 2009 and December 31, 2008 and for the three and nine months ended September 30, 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 SEPTEMBER 30, 2009
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$ —	$ 363	$ 157	$ —	$ 520
Other	9	1,831	208	(60)	1,988
Total Current Assets	9	2,194	365	(60)	2,508
PROPERTY AND EQUIPMENT:					
Natural gas and oil properties, at cost based on full-cost accounting	—	20,527	205	—	20,732
Other property and equipment	—	2,820	2,826	—	5,646
Total Property and Equipment	—	23,347	3,031	—	26,378
Other assets	201	608	24	—	833
Investments in subsidiaries and intercompany advance	3,738	244	—	(3,982)	—
TOTAL ASSETS	$ 3,948	$ 26,393	$ 3,420	$ (4,042)	$ 29,719
CURRENT LIABILITIES:					
Current liabilities	$ 211	$ 2,231	$ 133	$ (61)	$ 2,514
Intercompany payable (receivable) from parent	(19,118)	17,091	2,012	15	—
Total Current Liabilities	(18,907)	19,322	2,145	(46)	2,514
LONG-TERM LIABILITIES:					
Long-term debt, net	10,443	1,618	12	—	12,073
Deferred income tax liabilities	311	860	159	(14)	1,316
Other liabilities	123	855	9	—	987
Total Long-Term Liabilities	10,877	3,333	180	(14)	14,376
EQUITY:					
Chesapeake stockholders' equity	11,978	3,738	244	(3,982)	11,978
Noncontrolling interest	—	—	851	—	851
Total Equity	11,978	3,738	1,095	(3,982)	12,829
TOTAL LIABILITIES AND EQUITY	$ 3,948	$ 26,393	$ 3,420	$ (4,042)	$ 29,719

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)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$ —	$ 1,749	$ —	$ —	$ 1,749
Other	13	2,392	169	(31)	2,543
Total Current Assets	13	4,141	169	(31)	4,292
PROPERTY AND EQUIPMENT:					
Natural gas and oil properties, at cost based on full-cost accounting	—	28,474	4	—	28,478
Other property and equipment	—	2,481	2,349	—	4,830
Total Property and Equipment	—	30,955	2,353	—	33,308
Other assets	140	838	15	—	993
Investments in subsidiaries and intercompany advance	8,452	143	—	(8,595)	—
TOTAL ASSETS	$ 8,605	$ 36,077	$ 2,537	$ (8,626)	$ 38,593
CURRENT LIABILITIES:					
Current liabilities	$ 257	$ 3,324	$ 131	$ (91)	$ 3,621
Intercompany payable (receivable) from parent	(18,274)	16,636	1,578	60	—
Total Current Liabilities	(18,017)	19,960	1,709	(31)	3,621
LONG-TERM LIABILITIES:					
Long-term debt, net	9,241	3,474	460	—	13,175
Deferred income tax liabilities	438	3,543	219	—	4,200
Other liabilities	(74)	648	6	—	580
Total Long-Term Liabilities	9,605	7,665	685	—	17,955
EQUITY:					
Chesapeake stockholders' equity	17,017	8,452	143	(8,595)	17,017
Noncontrolling interest	—	—	—	—	—
Total Equity	17,017	8,452	143	(8,595)	17,017
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,605	$ 36,077	$ 2,537	$ (8,626)	$ 38,593

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Three Months Ended September 30, 2009:					
REVENUES:					
Natural gas and oil sales	$ —	$ 1,184	$ 3	$ —	$ 1,187
Marketing, gathering and compression sales	—	504	126	(55)	575
Service operations revenue	—	49	—	—	49
Total Revenues	—	1,737	129	(55)	1,811
OPERATING COSTS:					
Production expenses	—	217	1	—	218
Production taxes	—	25	—	—	25
General and administrative expenses	—	86	9	—	95
Marketing, gathering and compression expenses	—	517	54	(25)	546
Service operations expense	—	49	—	—	49
Natural gas and oil depreciation, depletion and amortization	—	293	2	—	295
Depreciation and amortization of other assets	1	36	26	(1)	62
Impairment of natural gas and oil properties and other assets	—	—	86	—	86
Loss on sale of other property and equipment	—	—	38	—	38
Restructuring costs	—	—	—	—	—
Total Operating Costs	1	1,223	216	(26)	1,414
INCOME (LOSS) FROM OPERATIONS	(1)	514	(87)	(29)	397
OTHER INCOME (EXPENSE):					
Other income (expense)	175	(30)	—	(175)	(30)
Interest expense	(161)	(57)	—	175	(43)
Loss on exchanges of Chesapeake debt	(17)	—	—	—	(17)
Equity in net earnings of subsidiary	195	(72)	—	(123)	—
Total Other Income (Expense)	192	(159)	—	(123)	(90)
INCOME (LOSS) BEFORE INCOME TAXES	191	355	(87)	(152)	307
INCOME TAX EXPENSE (BENEFIT)	(1)	160	(33)	(11)	115
NET INCOME (LOSS)	192	195	(54)	(141)	192
Net income (loss) attributable to noncontrolling interest	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE COMMON STOCKHOLDERS	$ 192	$ 195	$ (54)	$ (141)	$ 192

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(Adjusted)
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Three Months Ended September 30, 2008:					
REVENUES:					
Natural gas and oil sales	$ —	$ 6,408	$ —	$ —	$ 6,408
Marketing, gathering and compression sales	—	994	87	(43)	1,038
Service operations revenue	—	45	—	—	45
Total Revenues	—	7,447	87	(43)	7,491
OPERATING COSTS:					
Production expenses	—	239	—	—	239
Production taxes	—	87	—	—	87
General and administrative expenses	—	104	4	—	108
Marketing, gathering and compression expenses	—	984	34	(4)	1,014
Service operations expense	—	37	—	—	37
Natural gas and oil depreciation, depletion and amortization	—	480	—	—	480
Depreciation and amortization of other assets	(1)	36	12	1	48
Total Operating Costs	(1)	1,967	50	(3)	2,013
INCOME (LOSS) FROM OPERATIONS	1	5,480	37	(40)	5,478
OTHER INCOME (EXPENSE):					
Other income (expense)	186	(19)	7	(186)	(12)
Interest expense	(160)	(60)	—	186	(34)
Loss on exchanges of Chesapeake debt	(31)	—	—	—	(31)
Equity in net earnings of subsidiary	3,324	2	—	(3,326)	—
Total Other Income (Expense)	3,319	(77)	7	(3,326)	(77)
INCOME (LOSS) BEFORE INCOME TAXES	3,320	5,403	44	(3,366)	5,401
INCOME TAX EXPENSE (BENEFIT)	(2)	2,079	17	(15)	2,079
NET INCOME (LOSS)	3,322	3,324	27	(3,351)	3,322
Net income (loss) attributable to noncontrolling interest	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE COMMON STOCKHOLDERS	$ 3,322	$ 3,324	$ 27	$ (3,351)	$ 3,322

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Nine Months Ended September 30, 2009:					
REVENUES:					
Natural gas and oil sales	$ —	$ 3,678	$ 3	$ —	$ 3,681
Marketing, gathering and compression sales	—	1,461	354	(155)	1,660
Service operations revenue	—	139	—	—	139
Total Revenues	—	5,278	357	(155)	5,480
OPERATING COSTS:					
Production expenses	—	670	—	—	670
Production taxes	—	71	—	—	71
General and administrative expenses	—	239	20	—	259
Marketing, gathering and compression expenses	—	1,436	148	(15)	1,569
Service operations expense	—	136	—	—	136
Natural gas and oil depreciation, depletion and amortization	—	1,035	2	—	1,037
Depreciation and amortization of other assets	—	110	67	—	177
Impairment of natural gas and oil properties and other assets	—	9,635	86	—	9,721
Loss on sale of other property and equipment	—	—	38	—	38
Restructuring costs	—	34	—	—	34
Total Operating Costs	—	13,366	361	(15)	13,712
INCOME (LOSS) FROM OPERATIONS	—	(8,088)	(4)	(140)	(8,232)
OTHER INCOME (EXPENSE):					
Other income (expense)	512	(27)	2	(512)	(25)
Interest expense	(447)	(112)	(5)	512	(52)
Impairment of investments	—	(148)	(14)	—	(162)
Loss on exchanges of Chesapeake debt	(19)	—	—	—	(19)
Equity in net earnings of subsidiary	(5,335)	(101)	—	5,436	—
Total Other Income (Expense)	(5,289)	(388)	(17)	5,436	(258)
INCOME (LOSS) BEFORE INCOME TAXES	(5,289)	(8,476)	(21)	5,296	(8,490)
INCOME TAX EXPENSE (BENEFIT)	17	(3,141)	(8)	(52)	(3,184)
NET INCOME (LOSS)	(5,306)	(5,335)	(13)	5,348	(5,306)
Net income (loss) attributable to noncontrolling interest	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE COMMON STOCKHOLDERS	$ (5,306)	$ (5,335)	$ (13)	$ 5,348	$ (5,306)

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(Adjusted)
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Nine Months Ended September 30, 2008:					
REVENUES:					
Natural gas and oil sales	$ —	$ 5,587	$ —	$ —	$ 5,587
Marketing, gathering and compression sales	—	2,810	235	(111)	2,934
Service operations revenue	—	127	—	—	127
Total Revenues	—	8,524	235	(111)	8,648
OPERATING COSTS:					
Production expenses	—	658	—	—	658
Production taxes	—	250	—	—	250
General and administrative expenses	—	279	9	—	288
Marketing, gathering and compression expenses	—	2,767	97	—	2,864
Service operations expense	—	104	—	—	104
Natural gas and oil depreciation, depletion and amortization	—	1,518	—	—	1,518
Depreciation and amortization of other assets	—	92	32	—	124
Total Operating Costs	—	5,668	138	—	5,806
INCOME (LOSS) FROM OPERATIONS	—	2,856	97	(111)	2,842
OTHER INCOME (EXPENSE):					
Other income (expense)	525	(29)	6	(525)	(23)
Interest expense	(426)	(285)	—	525	(186)
Loss on exchanges of Chesapeake debt	(31)	—	—	—	(31)
Equity in net earnings of subsidiary	1,558	(5)	—	(1,553)	—
Total Other Income (Expense)	1,626	(319)	6	(1,553)	(240)
INCOME (LOSS) BEFORE INCOME TAXES	1,626	2,537	103	(1,664)	2,602
INCOME TAX EXPENSE (BENEFIT)	26	979	40	(43)	1,002
NET INCOME (LOSS)	1,600	1,558	63	(1,621)	1,600
Net income (loss) attributable to noncontrolling interest	—	—	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE COMMON STOCKHOLDERS	$ 1,600	$ 1,558	$ 63	$ (1,621)	$ 1,600

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Nine Months Ended September 30, 2009:					
CASH FLOWS FROM OPERATING ACTIVITIES	$ —	$ 3,074	$ 57	$ —	$ 3,131
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to natural gas and oil properties	—	(3,475)	(199)	—	(3,674)
Proceeds from divestitures of natural gas and oil properties	—	1,729	—	—	1,729
Additions to other property and equipment	—	(661)	(701)	—	(1,362)
Other investing activities	—	(386)	39	—	(347)
Cash used in investing activities	—	(2,793)	(861)	—	(3,654)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from credit facilities borrowings	—	4,894	669	—	5,563
Payments on credit facilities borrowings	—	(6,749)	(1,117)	—	(7,866)
Proceeds from issuance of senior notes, net of offering costs	1,346	—	—	—	1,346
Proceeds from sales of noncontrolling, interest in midstream joint venture	—	—	588	—	588
Other financing activities	(153)	(167)	(17)	—	(337)
Intercompany advances, net	(1,193)	355	838	—	—
Cash provided by financing activities	—	(1,667)	961	—	(706)
Net increase (decrease) in cash and cash equivalents	—	(1,386)	157	—	(1,229)
Cash and cash equivalents, beginning of period	—	1,749	—	—	1,749
Cash and cash equivalents, end of period	$ —	$ 363	$ 157	$ —	$ 520

	Parent	(Adjusted) Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Nine Months Ended September 30, 2008:					
CASH FLOWS FROM OPERATING ACTIVITIES	$ —	$ 4,234	$ 153	$ —	$ 4,387
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to natural gas and oil properties	—	(11,922)	—	—	(11,922)
Proceeds from divestitures of natural gas oil properties	—	5,858	18	—	5,876
Additions to other property and equipment	—	(1,204)	(765)	—	(1,969)
Other investing activities	—	(268)	—	—	(268)
Cash used in investing activities	—	(7,536)	(747)	—	(8,283)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from credit facilities borrowings	—	12,831	—	—	12,831
Payments on credit facilities borrowings	—	(11,307)	—	—	(11,307)
Proceeds from issuance of senior notes, net of offering costs	2,136	—	—	—	2,136
Proceeds from issuance of common stock, net of offering costs	2,598	—	—	—	2,598
Other financing activities	(405)	6	—	—	(399)
Intercompany advances, net	(4,329)	3,735	594	—	—
Cash provided by financing activities	—	5,265	594	—	5,859
Net increase (decrease) in cash and cash equivalents	—	1,963	—	—	1,963
Cash and cash equivalents, beginning of period	—	1	—	—	1
Cash and cash equivalents, end of period	$ —	$ 1,964	$ —	$ —	$ 1,964

14. 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.

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.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. Among other items, SFAS 167 responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. SFAS 167 is effective for calendar year companies beginning on January 1, 2010. We are currently assessing the impact that adoption of SFAS 167 will have on our financial position, results of operations, cash flows or disclosures.

In June 2009, the FASB issued Accounting Standards Update (ASU) 2009-01, *The FASB Accounting Standards Codification* ™ *and the Hierarchy of Generally Accepted Accounting Principles*. This standard replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* and establishes only two levels of U.S. GAAP, authoritative and nonauthoritative. The FASB Accounting Standards Codification has become the single source of authoritative nongovernmental U.S. GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative U.S. GAAP for SEC registrants. This standard is effective for financial statements for interim or annual reporting periods ended after September 15, 2009. We began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the Current Quarter. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial statements.

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value*. This update provides clarification for the fair value measurement of liabilities. ASU 2009-05 is effective for the first reporting period beginning after issuance and we have adopted its provisions in the Current Quarter. ASU 2009-05 did not have a significant impact on our financial position, results of operations, cash flows or disclosures.

15. Subsequent Events

Subsequent to September 30, 2009, holders of $125 million of our 2.25% Contingent Convertible Senior Notes due 2038 exchanged their senior notes for 3.5 million shares of common stock in privately negotiated exchanges. The difference between the fair value of the notes that were exchanged and the fair value of the common stock issued will be recorded as a loss on exchange of debt of approximately $21 million.

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 and nine months ended September 30, 2009 (the "Current Quarter" and the "Current Period") and the three and nine months ended September 30, 2008 (the "Prior Quarter" and the "Prior Period"):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008 (Adjusted)	2009	2008 (Adjusted)
Net Production:				
Natural gas (mmcf)	210,292	196,657	610,323	579,423
Oil (mbbls)	3,027	2,810	9,053	8,372
Natural gas equivalent (mmcfe)	228,454	213,517	664,641	629,655
Natural Gas and Oil Sales ($ in millions):				
Natural gas sales	$ 596	$ 1,717	$ 1,819	$ 5,046
Natural gas derivatives – realized gains (losses)	675	(140)	1,771	(174)
Natural gas derivatives – unrealized gains (losses)	(275)	3,854	(398)	325
Total natural gas sales	996	5,431	3,192	5,197
Oil sales	189	319	461	915
Oil derivatives – realized gains (losses)	12	(106)	31	(280)
Oil derivatives – unrealized gains (losses)	(10)	764	(3)	(245)
Total oil sales	191	977	489	390
Total natural gas and oil sales	$ 1,187	$ 6,408	$ 3,681	$ 5,587
Average Sales Price (excluding all gains (losses) on derivatives):				
Natural gas ($ per mcf)	$ 2.84	$ 8.73	$ 2.98	$ 8.71
Oil ($ per bbl)	$ 62.47	$ 113.53	$ 50.97	$ 109.28
Natural gas equivalent ($ per mcfe)	$ 3.44	$ 9.54	$ 3.43	$ 9.47
Average Sales Price (excluding unrealized gains (losses) on derivatives):				
Natural gas ($ per mcf)	$ 6.04	$ 8.02	$ 5.88	$ 8.41
Oil ($ per bbl)	$ 66.42	$ 75.74	$ 54.37	$ 75.82
Natural gas equivalent ($ per mcfe)	$ 6.44	$ 8.38	$ 6.14	$ 8.75
Other Operating Income (Loss)[(a)] ($ in millions):				
Marketing, gathering and compression	$ 29	$ 24	$ 91	$ 70
Service operations	$ —	$ 8	$ 3	$ 23
Other Operating Income (Loss)[(a)] ($ per mcfe):				
Marketing, gathering and compression	$ 0.13	$ 0.11	$ 0.14	$ 0.11
Service operations	$ —	$ 0.04	$ —	$ 0.04
Expenses ($ per mcfe):				
Production expenses	$ 0.96	$ 1.12	$ 1.01	$ 1.04
Production taxes	$ 0.11	$ 0.41	$ 0.11	$ 0.40
General and administrative expenses	$ 0.42	$ 0.51	$ 0.39	$ 0.46
Natural gas and oil depreciation, depletion and amortization	$ 1.29	$ 2.25	$ 1.56	$ 2.41
Depreciation and amortization of other assets	$ 0.27	$ 0.22	$ 0.27	$ 0.20
Interest expense[(b)]	$ 0.28	$ 0.20	$ 0.24	$ 0.31
Interest Expense ($ in millions):				
Interest expense	$ 70	$ 37	$ 177	$ 194
Interest rate derivatives – realized (gains) losses	(7)	5	(19)	1
Interest rate derivatives – unrealized (gains) losses	(20)	(8)	(106)	(9)
Total interest expense	$ 43	$ 34	$ 52	$ 186
Net Wells Drilled	224	455	700	1,388
Net Producing Wells as of the End of the Period	22,749	22,475	22,749	22,475

(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.

We are one of the leading producers of natural gas in the United States. We own interests in approximately 43,600 producing natural gas and oil wells that are currently producing approximately 2.6 bcfe per day, 93% 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 Period, Chesapeake continued the industry's most active drilling program drilling 853 gross operated wells (624 net with an average working interest of 73%) and participating in another 864 gross wells operated by other companies (76 net with an average working interest of 9%). The company's drilling success rate was 99% for company-operated wells and 98% for non-operated wells. Also during the Current Period, we invested $2.211 billion in operated wells (using an average of 102 operated rigs) and $330 million in non-operated wells (using an average of 57 non-operated rigs) for total drilling, completing and equipping costs of $2.541 billion (net of carries).

Our total Current Quarter production was 228.5 bcfe, comprised of 210.3 bcf (92% on a natural gas equivalent basis) and 3.027 mmbbls of oil and natural gas liquids (8% on a natural gas equivalent basis). Daily production for the Current Quarter averaged 2.483 bcfe, an increase of 162 mmcfe, or 7%, over the 2.321 bcfe produced per day in the Prior Quarter. Adjusted for our 2009 voluntary production curtailments due to low natural gas prices and involuntary production curtailments due to pipeline repairs (which together averaged approximately 45 mmcfe per day during the Current Quarter), our 2009 and third and fourth quarter 2008 volumetric production payment transactions (which combined averaged approximately 125 mmcfe per day during the Current Quarter) and the estimated impact from various divestitures (which would have averaged approximately 105 mmcfe per day during the Current Quarter), our year over year production growth rate would have been 14% after making similar adjustments to prior quarters.

Chesapeake began 2009 with estimated proved reserves of 12.051 tcfe and ended the Current Period with 11.994 tcfe, a decrease of 57 bcfe, or 0.5%. During the Current Period, we replaced 665 bcfe of production with an internally estimated 608 bcfe of new proved reserves, for a reserve replacement rate of 91%. The Current Period's reserve movement included 1.455 tcfe of extensions, 1.503 tcfe of positive performance revisions, 2.164 tcfe of downward revisions resulting primarily from a decrease in natural gas prices between December 31, 2008 and September 30, 2009 and 186 bcfe of net divestitures. 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 built the largest combined inventories of onshore leasehold (14.1 million net acres) and 3-D seismic (23.3 million acres) in the U.S. and the largest inventory of U.S. Big 4 Shale play leasehold (2.8 million net acres). We are currently using 105 operated drilling rigs to further develop our inventory of approximately 36,000 net drillsites, which represents more than a 10-year inventory of drilling projects.

Our high level of hedging at attractive prices should continue to insulate us from potentially soft near-term natural gas prices during the remainder of 2009. We also believe that the remaining joint venture drilling carries of approximately $2.1 billion will enhance returns on invested capital, reduce our capital expenditures and improve our balance sheet.

Our debt, net of cash on hand, as a percentage of total capitalization (total capitalization is the sum of debt, net of cash on hand, and equity) was 47% as of September 30, 2009 and 40% as of December 31, 2008. The increase in this percentage is primarily due to the reduction of equity as the result of a $5.3 billion net loss caused by impairments of natural gas and oil properties and other assets of $9.7 billion in the Current Period. The average maturity of our long-term debt is over seven years with an average coupon interest rate of approximately 6.2%. No scheduled principal payments are required under our senior notes until 2013 when $864 million is due.

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 the first half of 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 innovative joint ventures with Plains Exploration & Production Company (PXP), BP America (BP) and StatoilHydro U.S.A. (STO), we significantly reduced our planned capital expenditures through year-end 2010. Our current budgeted capital expenditures, net of drilling carries, are $3.525 billion to $3.900 billion in 2009 and $4.625 billion to $5.000 billion in 2010. We anticipate directing approximately 75% of the drilling capital expenditures (before drilling carries) during 2009 and 2010 to our Big 4 shale plays.

During 2009, our exploration and development costs have been significantly lower than 2008 costs as a result of lower service costs and the benefit of approximately $959 million of joint venture drilling carries in three of our Big 4 shale plays. We expect low service costs to continue in 2010, and the remaining approximately $2.1 billion of drilling carries associated with our joint ventures create a significant cost advantage for us that will allow us to continue to drive down finding costs in our joint venture plays. The following table provides information about the joint venture drilling carries:

	Shale Play							
	Haynesville[a]		Fayetteville		Marcellus		Total	
	($ in millions)							
Joint venture with	PXP		BP		STO			
Closing date	July 1, 2008		September 19, 2008		November 24, 2008			
Cash proceeds at closing	$	1,650	$	1,100	$	1,250	$	4,000
Total drilling carry	$	1,650	$	800	$	2,125	$	4,575
Carries billed as of September 30, 2009	$	1,522	$	723	$	85	$	2,330
Remaining drilling carry as of September 30, 2009	$	—	$	77	$	2,040	$	2,117

(a) In August 2009, we amended our Haynesville Shale joint venture agreement with Plains Exploration & Production Company (PXP). As part of the amendment, PXP accelerated the payment of its remaining joint venture drilling carries as of September 30, 2009 in exchange for an approximate 10% reduction in the total amount of drilling carry obligations due to Chesapeake and we received cash of $1.1 billion instead of an estimated $1.23 billion in remaining carried drilling costs that PXP would have paid over the next three years under the original agreement. In addition, Chesapeake and PXP agreed to terminate a previous joint venture amendment that granted PXP a one-time option in June 2010 to avoid paying the last $800 million of the drilling carry obligations by conveying 50% of its Haynesville Shale assets to Chesapeake.

The joint ventures in three of our shale plays are a complementary part of our business strategy to maximize the value of our leasehold inventory and minimize our investment risk. We have previously announced our efforts to arrange a joint venture for some or all of our Barnett Shale leasehold which, if successful, would enable us to increase our Barnett drilling activity and production. There are other new plays we are identifying and developing which may become additional joint venture opportunities. Our 50/50 joint venture with Global Infrastructure Partners in the Current Quarter is another example of our joining with a strong partner to develop key assets which include all of our midstream assets in the Barnett Shale and other midstream assets in the Mid-Continent. Upon the closing of this transaction, we received proceeds of $588 million. During the Current Period, we sold non-core natural gas and oil assets for proceeds of $278 million, and we expect to close additional sales of non-core properties in the coming months. Over the next two years, we expect to be a net seller of leasehold and producing properties.

Apart from asset monetizations, cash flow from operations is our primary source of liquidity used to fund capital expenditures. Our three revolving bank credit facilities provide us with borrowing capacity of up to $4.25 billion for 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 reborrow from time to time to fund drilling and leasehold acquisition initiatives and for general corporate purposes. At September 30, 2009, we had borrowings of $1.630 billion and letters of credit of $11 million outstanding under our credit facilities.

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 and 2010. 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. Cash provided by operating activities was $3.131 billion in the Current Period compared to $4.387 billion in the Prior Period. The $1.256 billion decrease in the Current Period was primarily due to lower natural gas 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 impairments of assets, 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 75% of our expected remaining natural gas and oil production in 2009 and 22% of our expected natural gas and oil production in 2010 at average prices of $7.29 per mcfe and $9.39 per mcfe, respectively. Our natural gas and oil hedges as of September 30, 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 September 30, 2009, we had a net natural gas and oil derivative asset of $384 million.

Our three revolving bank credit facilities, described below under *Bank Credit Facilities*, are other sources of liquidity. At November 4, 2009, there was $2.9 billion of borrowing capacity available under these credit facilities. We use the facilities and cash on hand to fund daily operating activities and capital expenditures as needed. We borrowed $5.563 billion and repaid $7.866 billion in the Current Period, and we borrowed $12.831 billion and repaid $11.307 billion in the Prior Period.

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 $1.346 billion from these two offerings were used to repay outstanding indebtedness under our general corporate revolving bank credit facility, which we reborrow from time to time to fund drilling and leasehold acquisition initiatives and for general corporate purposes. The following table reflects the proceeds from sales of securities we issued in the Current Period and the Prior Period ($ in millions):

	For the Nine Months Ended September 30,			
	2009		2008	
	Total Proceeds	Net Proceeds	Total Proceeds	Net Proceeds
Senior notes	$ 1,425	$ 1,346	$ 800	$ 787
Contingent convertible senior notes	—	—	1,380	1,349
Common stock	—	—	2,698	2,598
Total	$ 1,425	$ 1,346	$ 4,878	$ 4,734

Our primary use of funds is for capital expenditures related to exploration, development and acquisition of natural gas and oil properties. As described under *Business Strategy*, our joint venture drilling carries have reduced and will continue to reduce our capital expenditures. 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 Period and the Prior Period. 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 $135 million and $106 million in the Current Period and the Prior Period, respectively. Dividends paid on our preferred stock decreased to $18 million in the Current Period from $29 million in the Prior Period as a result of conversions and exchanges of preferred stock into common stock during 2008 and 2009.

In the Current Period and Prior Period, we received $19 million and paid $146 million, respectively, to settle a portion of the derivative liabilities assumed in our November 2005 acquisition of Columbia Natural Resources, LLC.

ASC 718 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 Period and the Prior Period, we reported a tax benefit from stock-based compensation of $0 and $42 million, respectively.

Outstanding payments from certain disbursement accounts in excess of funded cash balances where no legal right of set-off exists decreased $305 million in the Current Period and increased $210 million in the Prior Period. 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 facilities.

In the Current Period, we formed a joint venture with Global Infrastructure Partners (GIP), a New York-based private equity fund, to own and operate natural gas midstream assets. As part of the transaction, we contributed certain natural gas gathering and processing assets into a new entity, Chesapeake Midstream Partners, L.L.C. (CMP), and GIP purchased a 50% interest in CMP. Chesapeake retained the remaining 50% interest in CMP and received a $588 million cash distribution from CMP. The transaction is discussed in Note 8 of our condensed consolidated financial statements included in this report.

In the Current Period, we received net proceeds of $54 million from the mortgage financing of one of our buildings. The interest-only loan has a five-year term at a floating rate of prime plus 275 basis points. At our option, we may prepay the loan in full without penalty beginning in year four.

In the Current Period, we financed 113 real estate surface assets in the Barnett Shale area in and around Fort Worth, Texas for net proceeds of approximately $145 million and entered into a master lease agreement under which we agreed to lease the assets for 40 years for approximately $15 million to $27 million annually. As of September 30, 2009, the minimum aggregate future lease payments were approximately $862 million.

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, and we attempt to limit our exposure to non-performance by any single counterparty. During the more than 15 years we have engaged in hedging activities, we have experienced a counterparty default only once (Lehman Brothers in September 2008), and the total loss recorded in that instance was immaterial (presently approximately $15 million without giving effect to possible future recoveries or the results of replacement hedges we entered into after the termination of our Lehman hedges pursuant to the terms of the ISDA agreement with Lehman). On September 30, 2009, our commodity and interest rate derivative instruments were spread among 14 counterparties. Additionally, our multi-counterparty secured hedging facility requires our counterparties to secure their natural gas and oil hedging obligations in excess of defined thresholds. We now use this facility for all of our commodity hedging.

Our accounts receivable are primarily from purchasers of natural gas and oil ($476 million at September 30, 2009) and exploration and production companies which own interests in properties we operate ($528 million at September 30, 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 parent 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 and the Current Period, we recognized a nominal amount and $13 million, respectively, of bad debt expense related to potentially uncollectible receivables.

Investing Activities

Cash used in investing activities decreased to $3.654 billion during the Current Period, compared to $8.283 billion during the Prior Period. We have been reducing our drilling program since the third quarter of 2008, and our leasehold and property acquisitions expenditures in the Current Period were 88% lower than in the Prior Period. The following table shows our cash used in (provided by) investing activities during these periods:

	Nine Months Ended September 30,	
	2009	2008
	($ in millions)	
Natural Gas and Oil Investing Activities:		
Exploration and development of natural gas and oil properties	$ 2,647	$ 4,407
Acquisition of leasehold and unproved properties	890	6,933
Acquisitions of natural gas and oil companies and proved properties, net of cash acquired	17	368
Geological and geophysical costs	120	214
Interest capitalized on unproved properties	464	390
Proceeds from sales of volumetric production payments	(408)	(1,210)
Proceeds from divestitures of proved and unproved properties and leasehold	(1,321)	(4,666)
Total natural gas and oil investing activities	2,409	6,436
Other Investing Activities:		
Additions to other property and equipment	1,362	1,969
Proceeds from sales of compressors	(68)	(114)
Proceeds from sales of drilling rigs and equipment	—	(46)
Additions to investments	40	61
Proceeds from sales of other assets	(89)	(23)
Total other investing activities	1,245	1,847
Total cash used in investing activities	$ 3,654	$ 8,283

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 have used our common stock for some or all of the consideration for certain transactions. In December 2008, we registered 25 million shares of common stock and on July 14, 2009 we registered an additional 1,499,832 shares of common stock to acquire assets (including mineral interests), businesses or securities of other companies. As of July 15, 2009, we had issued all of the shares of common stock for proved and unproved properties and leasehold acquisitions.

Bank Credit Facilities

We utilize three bank credit facilities, described below, as sources of liquidity.

	General Corporate Credit Facility	CMD Credit Facility	CMP Credit Facility
		($ in millions)	
Borrowing capacity	$ 3,500	$ 250	$ 500
Maturity date	November 2012	September 2012	September 2012
Borrowers	Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C.	Chesapeake Midstream Operating, L.L.C. (CMO)	Chesapeake Midstream Partners, L.L.C. (CMP)
Facility structure	Senior secured revolving	Senior secured revolving	Senior secured revolving
Amount outstanding as of September 30, 2009	$ 1,618	—	$ 12
Letters of credit outstanding as of September 30, 2009	$ 11	—	—

Our credit facilities do not contain material adverse change or adequate assurance covenants. Although the applicable interest rates under our general corporate credit facility fluctuate slightly based on our long-term senior unsecured credit ratings, none 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.

General Corporate Credit Facility

Our $3.5 billion syndicated revolving bank credit facility is used for general corporate purposes. 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, 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% 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% 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%. 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 (excluding discount on senior notes) 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. As defined by the credit facility agreement, our indebtedness to total capitalization ratio was 0.41 to 1 and our indebtedness to EBITDA ratio was 3.48 to 1 at September 30, 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 Chesapeake and its restricted subsidiaries with an outstanding principal amount in excess of $75 million.

The facility is fully and unconditionally guaranteed, on a joint and several basis, by Chesapeake and all of our other wholly-owned restricted subsidiaries.

CMD Credit Facility

Our Chesapeake Midstream Development, L.P. (CMD) $250 million syndicated revolving bank credit facility is used to fund capital expenditures to build natural gas gathering and other systems for our drilling program and for general corporate purposes associated with our midstream operations. Borrowings under the CMD credit facility are secured by all of the assets of the wholly-owned subsidiaries (the restricted subsidiaries) of CMD, itself a wholly-owned subsidiary of Chesapeake, 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 LIBOR plus 1.00%, all of which would be subject to a margin that varies from 2.00% to 2.75% per annum according to the most recent indebtedness to EBITDA ratio (as defined) or (ii) the LIBOR plus a margin that varies from 3.00% to 3.75% 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 of 0.50% 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 CMD credit facility agreement contains various covenants and restrictive provisions which limit the ability of CMD and its restricted 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 3.00 to 1. As defined by the credit facility agreement, our indebtedness to EBITDA ratio was 0.01 to 1 and our EBITDA to interest expense coverage ratio was 6.62 to 1 at September 30, 2009. If CMD or its restricted 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 CMD facility could be declared immediately due and payable. The CMD credit facility agreement also has cross default provisions that apply to other indebtedness of CMD and its restricted subsidiaries may have with an outstanding principal amount in excess of $15 million.

CMP Credit Facility

Our Chesapeake Midstream Partners, L.L.C. (CMP) $500 million syndicated revolving bank credit facility was established concurrent with the midstream joint venture we formed on September 30, 2009 (see Note 8 for discussion regarding the midstream joint venture). As a result of that transaction, our existing CMD credit facility was amended and restated. Borrowings under the CMP credit facility are secured by all of the assets of the midstream companies organized under CMP, which is 50% owned by Chesapeake and 50% owned by our joint venture partner Global Infrastructure Partners, 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 LIBOR plus 1.00%, all of which would be subject to a margin that varies from 2.00% to 2.75% per annum according to the most recent indebtedness to EBITDA ratio (as defined) or (ii) the LIBOR plus a margin that varies from 3.00% to 3.75% 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 of 0.50% 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 CMP 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 3.00 to 1. As defined by the credit facility agreement, our indebtedness to EBITDA ratio was 0.09 to 1 and our EBITDA to interest expense coverage ratio was 17.49 to 1 at September 30, 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 CMP facility could be declared immediately due and payable. The CMP 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.

Hedging Facilities

We began 2009 with six secured hedging facilities, each of which permitted 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 of the facilities were collateralized by certain of our natural gas and oil properties that did not secure any of our other obligations. On June 11, 2009, we entered into a multi-counterparty hedge facility with 13 counterparties that have committed to provide approximately 3.9 tcfe of trading capacity and an aggregate mark-to-market capacity of $10.4 billion under the terms of the facility. The new multi-counterparty facility was intended to consolidate and replace the six secured hedge facilities. As of September 30, 2009, there were trades outstanding on three of the six secured hedge facilities with a fair value of $86 million, and trades covering 122.9 bcfe had been novated into the multi-counterparty facility. As of November 6, 2009, all remaining trades had been novated and pledged collateral transferred to the multi-counterparty facility, resulting in 905.7 bcfe hedged and collateral value of approximately $4.1 billion. These trades will continue to be subject to pre-existing exposure fees, if any, but we are not required to pay an exposure fee for any new trades in the multi-counterparty facility.

The multi-counterparty facility allows us to enter into cash-settled natural gas and oil price and basis hedges with the counterparties. Our obligations under the multi-counterparty facility are secured by natural gas and oil proved reserves, the value of which must cover the fair value of the transactions outstanding under the facility by at least 1.65 times, and guarantees by our subsidiaries that also guarantee our corporate revolving bank credit facility and indentures. The counterparties' obligations under the facility must be secured by cash or short-term U.S. Treasury instruments to the extent that any mark-to-market amounts they owe to Chesapeake exceed defined thresholds. The maximum volume-based trading capacity under the facility is governed by the expected production of the pledged reserve collateral, and volume-based trading limits are applied separately to price and basis hedges. In addition, there are volume-based sub-limits for natural gas and oil hedges. Chesapeake has significant flexibility with regard to releases and/or substitutions of pledged reserves, provided that certain collateral coverage and other requirements are met. The facility does not have a maturity date. Counterparties to the agreement have the right to cease trading with the company on a prospective basis as long as obligations associated with any existing trades in the facility continue to be satisfied in accordance with the terms of the agreement.

Senior Note Obligations

In addition to outstanding borrowings under our revolving bank credit facilities discussed above, as of September 30, 2009, senior notes represented approximately $10.4 billion of our total debt and consisted of the following ($ 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)]	878
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)]	888
Discount on senior notes[(c)]	(991)
Interest rate derivatives[(d)]	80
	$ 10,443

(a) The principal amount shown is based on the dollar/euro exchange rate of $1.4630 to €1.00 as of September 30, 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 third 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 fourth 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	$ 64.36	November 14, 2017
2.25% due 2038	December 15, 2018, 2023, 2028, 2033	$ 107.36	June 14, 2019

(c) Included in this discount is $859 million associated with the equity component of our contingent convertible senior notes. See Note 6 of our condensed consolidated financial statements for a description of the accounting treatment applied to these notes.

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

As of September 30, 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).

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. Our senior note obligations are guaranteed by certain of our wholly-owned subsidiaries. See Note 13 of the financial statements included in this report for condensed consolidating financial information regarding our guarantor and non-guarantor subsidiaries. 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 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 revolving bank credit facility. As of September 30, 2009, we estimate that secured commercial bank indebtedness of approximately $5.691 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 September 30, 2009. These include commitments related to drilling rig, compressor and real estate surface asset 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 September 30, 2009 vs. September 30, 2008

General. For the Current Quarter, Chesapeake had net income of $192 million, or $0.30 per diluted common share, on total revenues of $1.811 billion. This compares to net income of $3.322 billion, or $5.62 per diluted common share, on total revenues of $7.491 billion during the Prior Quarter. The Prior Quarter included an unrealized non-cash after-tax mark-to-market gain of $2.840 billion related to future period natural gas and oil hedges resulting primarily from lower natural gas and oil prices as of September 30, 2008 compared to June 30, 2008.

Natural Gas and Oil Sales. During the Current Quarter, natural gas and oil sales were $1.187 billion compared to $6.408 billion in the Prior Quarter. In the Current Quarter, Chesapeake produced 228.5 bcfe at a weighted average price of $6.44 per mcfe, compared to 213.5 bcfe produced in the Prior Quarter at a weighted average price of $8.38 per mcfe (weighted average prices exclude the effect of unrealized gains or (losses) on natural gas and oil derivatives of ($285) million and $4.618 billion in the Current Quarter and the Prior Quarter, respectively). In the Current Quarter, the decrease in prices resulted in a decrease in revenue of $443 million and increased production resulted in a $125 million increase, for a net decrease in revenues of $318 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 by organic growth.

For the Current Quarter, we realized an average price per mcf of natural gas of $6.04, compared to $8.02 in the Prior Quarter (weighted average prices exclude the effect of unrealized gains or (losses) on derivatives). Oil prices realized per barrel (excluding unrealized gains or (losses) on derivatives) were $66.42 and $75.74 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 $687 million, or $3.00 per mcfe, in the Current Quarter and a decrease of $246 million, or $1.15 per mcfe, 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 $23 million and $22 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.

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

	For the Three Months Ended September 30,			
	2009		2008	
	Bcfe	Percent	Bcfe	Percent
Mid-Continent[(a)(b)]	79.5	35%	88.5	42%
Barnett Shale	58.6	26	47.7	22
Haynesville Shale	24.0	10	7.4	4
Fayetteville Shale[(a)]	23.1	10	15.3	7
Permian and Delaware Basins	18.8	8	20.4	9
South Texas/Gulf Coast/Ark-La-Tex	12.8	6	24.7	11
Appalachian Basin	6.6	3	8.7	4
Marcellus Shale	5.1	2	0.8	1
Total production	228.5	100%	213.5	100%

(a) The Current Quarter and the Prior Quarter production was reduced by an estimated 9.7 bcfe and 4.1 bcfe, respectively, of production related to divestitures.

(b) The Current Quarter and the Prior Quarter production was reduced by 11.7 bcfe and 2.9 bcfe, respectively, of production related to VPP transactions that closed in 2008 and 2009.

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

Marketing, Gathering and Compression Sales and Operating Expenses. Marketing, gathering and compression activities are substantially for third parties who are owners in Chesapeake-operated wells. Chesapeake realized $575 million in marketing, gathering and compression sales in the Current Quarter, with corresponding marketing, gathering and compression expenses of $546 million, for a net margin before depreciation of $29 million. This compares to sales of $1.038 billion, expenses of $1.014 billion and a net margin before depreciation of $24 million in the Prior Quarter. In the Current Quarter, Chesapeake realized an increase in marketing, gathering and compression net margin primarily due to an increase in third-party marketing volumes.

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 $49 million in service operations revenue in the Current Quarter with corresponding service operations expense of $49 million, for a net margin before depreciation of a nominal amount. This compares to revenue of $45 million, expenses of $37 million and a net margin before depreciation of $8 million in the Prior Quarter. The decrease in margin during the Current Quarter was the result of both a reduction in drilling rates and ongoing fixed operating expenses associated with rigs that were not in operation during the Current Quarter.

Production Expenses. Production expenses, which include lifting costs and ad valorem taxes, were $218 million in the Current Quarter compared to $239 million in the Prior Quarter. On a unit-of-production basis, production expenses were $0.96 per mcfe in the Current Quarter compared to $1.12 per mcfe in the Prior Quarter. The decrease in the Current Quarter was primarily due to lower service costs in the field as a result of the economic downturn.

Production Taxes. Production taxes were $25 million in the Current Quarter compared to $87 million in the Prior Quarter. On a unit-of-production basis, production taxes were $0.11 per mcfe in the Current Quarter compared to $0.41 per mcfe in the Prior Quarter. The $62 million decrease in production taxes in the Current Quarter is primarily due to a decrease in the average realized sales price of natural gas and oil of $6.10 per mcfe (excluding gains or losses on derivatives) which was partially offset by an increase in production of 15 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.

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 $95 million in the Current Quarter and $108 million in the Prior Quarter. General and administrative expenses were $0.42 and $0.51 per mcfe for the Current Quarter and Prior Quarter, respectively. The decrease in the Current Quarter is primarily due to a reduction in advertising costs partially offset by an increase in payroll costs. Included in general and administrative expenses is stock-based compensation of $22 million for the Current Quarter and $26 million the Prior Quarter.

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 $91 million and $101 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 $295 million and $480 million during the Current Quarter and the Prior Quarter, respectively. The average DD&A rate per mcfe, which is a function of capitalized costs, future development costs and the related underlying reserves in the periods presented, was $1.29 and $2.25 in the Current Quarter and in the Prior Quarter, respectively. The $0.96 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 and 2009, the utilization of joint venture drilling carries in the Current Quarter and the impairment of natural gas and oil properties in 2008 and 2009.

Depreciation and Amortization of Other Assets. Depreciation and amortization of other assets was $62 million in the Current Quarter and $48 million in the Prior Quarter. Depreciation and amortization of other assets was $0.27 and $0.22 per mcfe for the Current Quarter and the Prior Quarter, respectively. The increase in the Current Quarter is a result of the significant increase in our investment in gathering systems, buildings and rigs. Property and equipment costs are depreciated on a straight-line basis. Buildings are depreciated over 10 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.

Impairment of Natural Gas and Oil Properties and Other Assets. In the Current Quarter, we recorded an $82 million impairment of certain of the gathering systems contributed to the joint venture with GIP, as well as a $4 million impairment of debt issuance costs associated with the portion of our $460 million CMD credit facility that was reduced to $250 million.

Loss on Sale of Other Property and Equipment. In the Current Quarter, we recorded a $38 million loss on the sale of two gathering systems.

Other Income (Expense). Other income (expense) was ($30) million and ($12) million in the Current Quarter and in the Prior Quarter, respectively. The Current Quarter consisted of $1 million of interest income, a ($24) million loss related to our equity in certain investments and ($7) million of miscellaneous expense. The Prior Quarter consisted of $5 million of interest income, a ($17) million loss related to our equity in certain investments, ($10) million of consent solicitation fees and $10 million of miscellaneous income.

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Interest Expense. Interest expense increased to $43 million in the Current Quarter compared to $34 million in the Prior Quarter as follows:

	Three Months Ended September 30,	
	2009	2008
	($ in millions)	
Interest expense on senior notes	$ 195	$ 171
Interest expense on credit facilities	18	23
Capitalized interest	(153)	(166)
Realized (gain) loss on interest rate derivatives	(7)	5
Unrealized (gain) loss on interest rate derivatives	(20)	(8)
Amortization of loan discount and other	10	9
Total interest expense	$ 43	$ 34
Average long-term borrowings on senior notes	$ 11,372	$ 10,929

Interest expense, excluding unrealized gains or losses on interest rate derivatives and net of amounts capitalized, was $0.28 per mcfe in the Current Quarter compared to $0.20 in the Prior Quarter. The increase in interest expense per mcfe is primarily due to the February 2009 issuance of $1.425 billion of our 9.5% Senior Notes due 2015. Capitalized interest decreased by $13 million as a result of a decrease in both unevaluated properties, the base on which interest is capitalized, and our average borrowing rates in the Current Quarter compared to the Prior Quarter.

Loss on Exchanges of Chesapeake Debt. In the Current Quarter, we privately exchanged approximately $153 million in aggregate principal amount of our 2.25% Contingent Convertible Senior Notes due 2038 for an aggregate of 4,176,671 shares of our common stock valued at approximately $110 million. Through these transactions, we were able to redeem this debt for common stock valued at less than 80% of the face value of the notes. Associated with these exchanges, we recorded a loss of $17 million. In connection with ASC 470-20, we are required to account for the liability and equity components of our convertible debt instruments separately. Of the $153 million principal amount of convertible notes exchanged in the Current Quarter, $96 million was allocated to the debt component and the remaining $57 million was allocated to the equity conversion feature and was recorded as an adjustment to paid-in-capital. The difference between the debt component and value of the common stock exchanged in these transactions resulted in a $14 million loss. In addition, we expensed $3 million in deferred charges associated with the exchanges. In the Prior Quarter, we repurchased $300 million of our 7.75% Senior Notes due 2015 in order to re-finance a portion of our long-term debt at a lower rate of interest. In connection with the transaction we recorded a $31 million loss, which consisted of a $12 million premium and $19 million of discounts, interest rate derivatives and deferred charges associated with the notes.

Income Tax Expense (Benefit). Chesapeake recorded income tax expense of $115 million in the Current Quarter, compared to income tax expense of $2.079 billion in the Prior Quarter. Of the $1.964 billion decrease in income tax expense recorded in the Current Quarter, $1.961 billion was the result of the decrease in net income before income taxes and $3 million was 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.

Results of Operations – Nine Months Ended September 30, 2009 vs. September 30, 2008

General. For the Current Period, Chesapeake had a net loss of $5.306 billion, or $8.78 per diluted common share, on total revenues of $5.480 billion. This compares to net income of $1.600 billion, or $2.76 per diluted common share, on total revenues of $8.648 billion during the Prior Period. The Current Period 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.

Natural Gas and Oil Sales. During the Current Period, natural gas and oil sales were $3.681 billion compared to $5.587 billion in the Prior Period. In the Current Period, Chesapeake produced 664.6 bcfe at a weighted average price of $6.14 per mcfe, compared to 629.7 bcfe produced in the Prior Period at a weighted average price of $8.75 per mcfe (weighted average prices exclude the effect of unrealized gains or (losses) on natural gas and oil derivatives of ($401) million and $80 million in the Current Period and Prior Period, respectively). In the Current Period, the decrease in prices resulted in a decrease in revenue of $1.730 billion and increased production resulted in a $306 million increase, for a net decrease in revenues of $1.424 billion (excluding unrealized gains or losses on natural gas and oil derivatives). The increase in production from the Prior Period to the Current Period was primarily generated by organic growth.

For the Current Period, we realized an average price per mcf of natural gas of $5.88, compared to $8.41 in the Prior Period (weighted average prices for both periods exclude the effect of unrealized gains or losses on derivatives). Oil prices realized per barrel (excluding unrealized gains or losses on derivatives) were $54.37 and $75.82 in the Current Period and Prior Period, respectively. Realized gains or losses from our natural gas and oil derivatives resulted in a net increase in natural gas and oil revenues of $1.802 billion, or $2.71 per mcfe, in the Current Period and a decrease of $454 million, or $0.72 per mcfe, in the Prior Period.

Changes in natural gas and oil prices have a significant impact on our natural gas and oil revenues and cash flows. Assuming the Current Period 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 $66 million and $64 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 $9 million without considering the effect of derivative activities.

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

	For the Nine Months Ended September 30,			
	2009		2008	
	Mmcfe	Percent	Mmcfe	Percent
Mid-Continent[(a)(b)]	231.4	35%	277.4	44%
Barnett Shale	175.4	26	129.0	20
Haynesville Shale	49.5	7	18.6	3
Fayetteville Shale[(a)]	61.8	9	39.4	6
Permian and Delaware Basins	57.5	9	59.9	10
South Texas/Gulf Coast/Ark-La-Tex	56.6	9	79.0	12
Appalachian Basin	23.4	4	24.7	4
Marcellus Shale	9.0	1	1.7	1
Total production	664.6	100%	629.7	100%

(a) The Current Period and the Prior Period production was reduced by an estimated 25.1 bcfe and 4.1 bcfe, respectively, of production related to divestitures.

(b) The Current Period and the Prior Period production was reduced by 29.7 bcfe and 2.9 bcfe, respectively, of production related to VPP transactions that closed in 2008 and 2009.

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

Marketing, Gathering and Compression Sales and Operating Expenses. Marketing, gathering and compression activities are substantially for third parties who are owners in Chesapeake-operated wells. Chesapeake realized $1.660 billion in marketing, gathering and compression sales in the Current Period, with corresponding marketing, gathering and compression expenses of $1.569 billion, for a net margin before depreciation of $91 million. This compares to sales of $2.934 billion, expenses of $2.864 billion and a net margin before depreciation of $70 million in the Prior Period. In the Current Period, Chesapeake realized an increase in marketing, gathering and compression net margin primarily due to an increase in third-party marketing volumes.

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 $139 million in service operations revenue in the Current Period with corresponding service operations expense of $136 million, for a net margin before depreciation of $3 million. This compares to revenue of $127 million, expenses of $104 million and a net margin before depreciation of $23 million in the Prior Period. The decrease in margin during the Current Period was the result of both a reduction in drilling rates and ongoing fixed operating expenses associated with rigs that were not in operation during the Current Period.

Production Expenses. Production expenses, which include lifting costs and ad valorem taxes, were $670 million in the Current Period compared to $658 million in the Prior Period. On a unit-of-production basis, production expenses were $1.01 per mcfe in the Current Period compared to $1.04 per mcfe in the Prior Period. The decrease in the Current Period per unit of production was primarily due to lower service costs in the field as a result of the economic downturn.

Production Taxes. Production taxes were $71 million in the Current Period compared to $250 million in the Prior Period. On a unit-of-production basis, production taxes were $0.11 per mcfe in the Current Period compared to $0.40 per mcfe in the Prior Period. The $179 million decrease in production taxes in the Current Period is primarily due to a decrease in the average realized sales price of natural gas and oil of $6.04 per mcfe (excluding gains or losses on derivatives) which was partially offset by an increase in production of 35 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.

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 $259 million in the Current Period and $288 million in the Prior Period. General and administrative expenses were $0.39 and $0.46 per mcfe for the Current Period and Prior Period, respectively. The decrease in the Current Period is primarily due to a reduction in advertising costs partially offset by an increase in payroll costs. Included in general and administrative expenses is stock-based compensation of $60 million and $66 million for the Current Period and the Prior Period, respectively.

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 $282 million and $268 million of internal costs in the Current Period and the Prior Period, 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 $1.037 billion and $1.518 billion during the Current Period and the Prior Period, respectively. The average DD&A rate per mcfe, which is a function of capitalized costs, future development costs and the related underlying reserves in the periods presented, was $1.56 and $2.41 in the Current Period and in the Prior Period, respectively. The $0.85 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 and 2009, the utilization of joint venture drilling carries in the Current Period and the impairment of natural gas and oil properties in 2008 and 2009.

Depreciation and Amortization of Other Assets. Depreciation and amortization of other assets was $177 million in the Current Period and $124 million in the Prior Period. Depreciation and amortization of other assets was $0.27 and $0.20 per mcfe for the Current Period and the Prior Period, respectively. The increase in the Current Period is a result of the significant increase in our investment in gathering systems, buildings and rigs. Property and equipment costs are depreciated on a straight-line basis. Buildings are depreciated over 10 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.

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 Period 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 Period and were consequently included in our ceiling test impairment during the Current Period.

Also in the Current Period, we recorded an $82 million impairment of certain of the gathering systems contributed to the joint venture with GIP, as well as a $4 million impairment of debt issuance costs associated with the portion of our $460 million CMD credit facility that was reduced to $250 million.

Finally, we recognized a $22 million charge in the Current Period for a deposit on canceled contracts that were not refunded.

Loss on Sale of Other Property and Equipment. In the Current Period, we recorded a $38 million loss on the sale of two gathering systems.

Restructuring Costs. In the Current Period, we recorded $34 million of restructuring and relocation costs in our Eastern Division and certain other workforce reduction costs. We restructured our Charleston, West Virginia-based Eastern Division from a regional corporate headquarters to a regional field office consistent with the business model we use elsewhere in the country. As a result, we consolidated the management of our Eastern Division land, legal, accounting, information technology, geoscience and engineering departments into our corporate offices in Oklahoma City. The costs of the restructuring include termination benefits, consolidating or closing facilities and relocating employees. The discussion of restructuring costs in Note 10 of our condensed consolidated financial statements included in Part I of this report provides additional detail on the accounting for and reporting of these costs.

Other Income (Expense). Other income (expense) was ($25) million in the Current Period compared to ($23) million in the Prior Period. The Current Period consisted of $6 million of interest income, an ($32) million loss related to our equity in certain investments and $1 million of miscellaneous income. The Prior Period income consisted of $9 million of interest income, a ($34) million loss related to our equity in certain investments, ($10) million of consent solicitation fees and $12 million of miscellaneous income.

Interest Expense. Interest expense decreased to $52 million in the Current Period compared to $186 million in the Prior Period as follows:

	Nine Months Ended September 30,	
	2009	**2008**
	($ in millions)	
Interest expense on senior notes	$ 572	$ 472
Interest expense on credit facilities	47	83
Capitalized interest	(467)	(390)
Realized (gain) loss on interest rate derivatives	(19)	1
Unrealized (gain) loss on interest rate derivatives	(106)	(9)
Amortization of loan discount and other	25	29
Total interest expense	$ 52	$ 186
Average long-term borrowings on senior notes	$ 11,172	$ 9,974

Interest expense, excluding unrealized gains or losses on interest rate derivatives and net of amounts capitalized, was $0.24 per mcfe in the Current Period compared to $0.31 in the Prior Period. The decrease in interest expense per mcfe is primarily due to an increase in capitalized interest and increased production volumes offset by an increase in interest expense associated with the February 2009 issuance of $1.425 billion of our 9.5% Senior Notes due 2015. Capitalized interest increased by $77 million as a result of a significant increase in unevaluated properties, the base on which interest is capitalized, in the Current Period compared to the Prior Period.

Impairment of Investments. In the Current Period, we recorded a $162 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; Ventura Refining and Transmission LLC, $13 million; and Mountain Drilling Company, $9 million.

Loss on Exchanges of Chesapeake Debt. In the Current Period, we privately exchanged approximately $238 million in aggregate principal amount of our 2.25% Contingent Convertible Senior Notes due 2038 for an aggregate of 6,707,321 shares of our common stock valued at approximately $164 million. Through these transactions, we were able to redeem this debt for common stock valued at less than 80% of the face value of the notes. Associated with these exchanges, we recorded a loss of $19 million. In connection with ASC 470-20, we are required to account for the liability and equity components of our convertible debt instruments separately. Of the $238 million principal amount of convertible notes exchanged in the Current Period, $148 million was allocated to the debt component and the remaining $90 million was allocated to the equity conversion feature and was recorded as an adjustment to paid-in capital. The difference between the debt component and value of the common stock exchanged in these transactions resulted in a $16 million loss. In addition, we expensed $3 million in deferred charges associated with the exchanges. In the Prior Period, we repurchased $300 million of our 7.75% Senior Notes due 2015 in order to re-finance a portion of our long-term debt at a lower rate of interest. In connection with the transaction we recorded a $31 million loss, which consisted of a $12 million premium and $19 million of discounts, interest rate derivatives and deferred charges associated with the notes.

Income Tax Expense (Benefit). Chesapeake recorded an income tax benefit of $3.184 billion in the Current Period, compared to an income tax expense of $1.002 billion in the Prior Period. Of the $4.186 billion decrease in income tax expense recorded in the Current Period, $4.271 billion was the result of the decrease in net income before income taxes which was offset by $85 million due to a decrease in the effective tax rate. Our effective income tax rate was 37.5% in the Current Period and 38.5% in the Prior Period. 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.

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.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. Among other items, SFAS 167 responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. SFAS 167 is effective for calendar year companies beginning on January 1, 2010. We are currently assessing the impact that adoption of SFAS 167 will have on our financial position, results of operations, cash flows or disclosures.

In June 2009, the FASB issued Accounting Standards Update (ASU) 2009-01, *The FASB Accounting Standards Codification* ™ *and the Hierarchy of Generally Accepted Accounting Principles*. This standard replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* and establishes only two levels of U.S. GAAP, authoritative and nonauthoritative. The FASB Accounting Standards Codification has become the single source of authoritative nongovernmental U.S. GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative U.S. GAAP for SEC registrants. This standard is effective for financial statements for interim or annual reporting periods ended after September 15, 2009. We began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the Current Quarter. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial statements.

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value*. This update provides clarification for the fair value measurement of liabilities. ASU 2009-05 is effective for the first reporting period beginning after issuance and we have adopted its provisions in the Current Quarter. ASU 2009-05 did not have a significant impact on our financial position, results of operations, cash flows or 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 and in Item 1A in Part II of our 2009 second quarter Form 10-Q. 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 amount and 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,

- potential increased operating costs resulting from proposed legislative and regulatory changes affecting our business,
- 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 our risk management objectives.

Our general strategy for attempting to mitigate exposure to adverse natural gas and oil price changes is to hedge into strengthening natural gas and oil 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, natural gas and oil storage inventory levels, industry decline rates for base production and weather trends.

We use a wide range of derivative 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 described in more detail below. We typically use swaps or knockouts for a large portion of the natural gas and oil volume we hedge. Swaps are used when the price level is acceptable, and we are not paid a sufficient premium for selling an additional put (a knockout) that could cause the swap to become ineffective if the NYMEX future price closes below the knockout threshold on the pricing date. We use knockouts when we think the put level is less likely to be reached and we are able to obtain a premium for the put thereby increasing our effective swap price. Historically, swaps which have become ineffective as a result of knockouts have had an immaterial effect on our results of operations and cash flows. For example, after a precipitous drop in natural gas and oil prices in the second half of 2008, swaps that were knocked out covered 2.7% of the company's total natural gas and oil production (2.3% of natural gas production and 7.1% of oil production) during the six months ended December 31, 2008 and 1.5% of the company's total natural gas and oil production (less than 1% of natural gas production and 8.2% of oil production) during the nine months ended September 30, 2009. We also sell calls, taking advantage of the volatility inherent in the market, for a portion of our projected production volumes when the strike price levels and the premiums are attractive to us. In other words, we sell calls when we believe it to be more likely than not that the future natural gas or oil price will stay below the call strike price plus the premium we will receive.

We determine the volume we may potentially hedge by reviewing the company's estimated future production levels, which are derived from extensive examination of existing producing reserve estimates and estimates of likely production (risked) from new drilling. Production forecasts are updated at least monthly 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 production forecasts, the hedges are reversed. The actual fixed hedge price on our derivative instruments is derived from market discovery, bidding and the reference NYMEX price, as reflected in current NYMEX trading. The pricing dates of our derivative contracts follow NYMEX futures, either being the penultimate trading day, last trading day or average of the last three trading days of the month. 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.

Hedging positions, including swaps, knockouts and collars, are adjusted in response to changes in prices and market conditions as part of an ongoing dynamic process. We review our hedging positions continuously and if future market conditions change, and prices have fallen to levels we believe could jeopardize the effectiveness of a position, we will mitigate such risk by either doing a cash settlement with our counterparty, restructuring the position, or by entering into a new swap that effectively reverses the current position (a counter-swap). In September 2008, for example, in response to declining natural gas and oil prices, we began restructuring knockout swap positions which we considered at risk. This restructuring allowed us to recover approximately $700 million of value for the nine months ended September 30, 2009 that would have been lost under the original positions. The factors we consider in closing or restructuring a position before the settlement date are identical to those we reviewed when deciding to enter into the original hedge position.

As of September 30, 2009, our natural gas and oil derivative instruments were comprised of the following:

- Swaps: Chesapeake receives a fixed price and pays a floating market price to the counterparty for the hedged commodity.

- Collars: These instruments 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 put and the call strike price, no payments are due from either party. On occasion, we make a three-way collar by selling an additional put option with the collar in exchange for a more favorable strike price on the collar. This eliminates the counterparty's downside exposure below the second put option.

- 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.

- 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 either party.

- 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 either party.

- Basis protection swaps: These instruments are arrangements that guarantee a price differential to NYMEX for natural gas from a specified delivery point. For non-Appalachian Basin 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.

In accordance with ASC 815 and ASC 210, 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.

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As of September 30, 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 September 30, 2009:

	Volume (bbtu)	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	ASC 815 Hedge	Net Premiums ($ in millions)	Fair Value at September 30, 2009 ($ in millions)
Natural Gas:								
Swaps:								
Q4 2009	103,183	$ 6.90	$ —	$ —	$ —	Yes	$ —	$ 197
Q1 2010	17,048	9.24	—	—	—	Yes	—	56
Q2 2010	15,641	8.21	—	—	—	Yes	—	35
Q3 2010	8,732	9.04	—	—	—	Yes	—	25
Q4 2010	9,972	9.27	—	—	—	Yes	—	25
CNR Swaps[a]:								
Q4 2009	4,600	5.18	—	—	—	Yes	—	2
Other Swaps[b]:								
Q4 2009	3,680	11.15	—	—	—	No	—	23
Q1 2010	3,600	11.35	—	—	—	No	—	—
Q2 2010	8,190	9.89	—	—	—	No	—	(1)
Q3 2010	8,280	9.89	—	—	—	No	—	—
Q4 2010	8,280	9.89	—	—	—	No	—	(1)
2011	4,500	8.73	—	—	—	No	—	—
Counter Swaps								
Q4 2009	(3,680)	9.26	—	—	—	No	—	(17)
Collars:								
Q4 2009	17,220	—	7.36	8.24	—	Yes	—	47
Q1 2010	22,500	—	6.00	8.00	—	Yes	—	12
CNR Collars[a]:								
Q4 2009	920	—	4.50	6.00	—	Yes	—	—
Other Collars[c]:								
Q4 2009	34,910	—	5.40/7.01	9.51	—	No	6	83
Q1 2010	20,700	—	4.86/7.03	9.06	—	No	—	23
Q2 2010	16,380	—	5.12/7.04	9.17	—	No	5	18
Q3 2010	3,680	—	7.60	11.75	—	No	4	7
Q4 2010	3,680	—	7.60	11.75	—	No	4	5
2011	7,300	—	7.70	11.50	—	No	7	10
Knockout Swaps:								
Q4 2009	1,830	9.43	6.00	—	—	No	—	1
Q1 2010	11,700	10.71	6.33	—	—	No	—	12
Q2 2010	11,830	9.66	6.00	—	—	No	—	9
Q3 2010	23,000	9.81	6.21	—	—	No	—	12
Q4 2010	23,000	9.99	6.20	—	—	No	—	11
2011	23,650	9.86	6.29	—	—	No	—	8
Call Options:								
Q4 2009	6,405	—	—	9.90	—	No	20	—
Q1 2010	65,700	—	—	10.19	—	No	42	(3)
Q2 2010	66,430	—	—	10.10	—	No	42	(4)
Q3 2010	67,160	—	—	10.20	—	No	42	(7)
Q4 2010	67,160	—	—	10.31	—	No	43	(13)
2011	68,438	—	—	10.35	—	No	42	(13)
2012 – 2020	180,872	—	—	11.70	—	No	100	(85)

	Volume (bbtu)	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	ASC 815 Hedge	Net Premiums ($ in millions)	Fair Value at September 30, 2009 ($ in millions)
Put Options:								
Q4 2009	(9,200)	—	3.00	—	—	No	1	—
Q1 2010	(9,000)	—	5.75	—	—	No	1	(5)
Q2 2010	(9,100)	—	5.75	—	—	No	1	(6)
Q3 2010	(9,200)	—	5.75	—	—	No	1	(6)
Q4 2010	(9,200)	—	5.75	—	—	No	1	(6)
2011	(36,500)	—	5.75	—	—	No	26	(20)
Basis Protection Swaps:								
Non-Appalachian Basin:								
Q4 2009	10,420	—	—	—	(1.64)	No	—	(15)
2011	45,090	—	—	—	(0.82)	No	(3)	(12)
2012 – 2018	57,961	—	—	—	(0.90)	No	(3)	(19)
Basis Protection Swaps:								
Appalachian Basin:								
Q4 2009	4,438	—	—	—	0.27	No	—	1
Q1 2010	2,294	—	—	—	0.27	No	—	—
Q2 2010	2,513	—	—	—	0.27	No	—	—
Q3 2010	2,660	—	—	—	0.26	No	—	—
Q4 2010	2,732	—	—	—	0.26	No	—	—
2011	12,086	—	—	—	0.25	No	—	—
2012 – 2022	134	—	—	—	0.11	No	—	—
Total Natural Gas							382	389

	Volume (mbbls)	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	ASC 815 Hedge	Net Premiums ($ in millions)	Fair Value at September 30, 2009 ($ in millions)
Oil:								
Counter Swaps:								
Q4 2009	(230)	69.10	—	—	—	No	—	—
Knockout Swaps:								
Q4 2009	1,288	85.71	52.79	—	—	No	(17)	18
Q1 2010	1,170	90.25	60.00	—	—	No	—	10
Q2 2010	1,183	90.25	60.00	—	—	No	—	6
Q3 2010	1,196	90.25	60.00	—	—	No	—	3
Q4 2010	1,196	90.25	60.00	—	—	No	—	1
2011	1,095	104.75	60.00	—	—	No	—	7
2012	732	109.50	60.00	—	—	No	—	5
Call Options:								
Q4 2009	920	—	—	112.50	—	No	(1)	(1)
Q1 2010	810	—	—	115.00	—	No	(1)	(1)
Q2 2010	819	—	—	115.00	—	No	(1)	(1)
Q3 2010	828	—	—	115.00	—	No	(1)	(2)
Q4 2010	828	—	—	115.00	—	No	(1)	(3)
2011	3,650	—	—	105.00	—	No	16	(20)
2012	3,660	—	—	105.00	—	No	16	(27)
Total Oil							10	(5)
Total Natural Gas and Oil							$ 392	$ 384

(a) 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 ASC 805, these derivative positions were recorded at fair value in the purchase price allocation as a liability of $592 million ($11 million liability remaining as of September 30, 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 ASC 815, 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.

(b) Included in Other Swaps are options to extend existing swaps for an additional 12 months, one for 40,000 mmbtu/day at $11.35/mmbtu and the other for 50,000 mmbtu/day at $8.73/mmbtu, callable by the counterparty in December 2009 and March 2010, respectively.

(c) Included in Other Collars for 2009 and 2010 are 11,420 bbtu and 26,220 bbtu of three-way collars which have written put options with weighted average prices of $5.40 and $4.97, respectively, which limit the counterparty's exposure.

We have determined 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. Future risk related to counterparties not being able to meet their obligations has been mitigated under our new secured hedging facility which requires counterparties to post collateral if their obligations to Chesapeake are in excess of defined thresholds. 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.

The table below reconciles the Current Period change in fair value of our natural gas and oil derivatives. Of the $384 million fair value asset, $531 million relates to contracts maturing in the next 12 months, of which we expect to transfer approximately $340 million (net of income taxes) from accumulated other comprehensive income to net income (loss), and ($147) million relates to contracts maturing after 12 months. All transactions hedged as of September 30, 2009 are expected to mature by December 31, 2022.

	2009 ($ in millions)
Fair value of contracts outstanding, as of January 1	$ 1,305
Change in fair value of contracts	1,202
Fair value of contracts when entered into	(46)
Contracts realized or otherwise settled	(1,674)
Fair value of contracts when closed	(403)
Fair value of contracts outstanding, as of September 30	$ 384

The change in natural gas and oil prices during the Current Period increased the value of our derivative assets by $1.202 billion. This gain is recorded in natural gas and oil sales or in accumulated other comprehensive income. We entered into new contracts which had premiums of $46 million, and a liability was recorded. We settled and closed out contracts, reducing our assets by $1.674 billion and $403 million, respectively, and the realized gain is recorded in natural gas and oil sales in the month of related production.

Pursuant to ASC 815, certain derivatives qualify for designation as cash flow hedges. Following these provisions, 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 accumulated other comprehensive income until the hedged item is recognized in earnings as the physical transactions being hedged occur. Any change in fair value resulting from ineffectiveness is currently recognized in natural gas and oil sales as unrealized gains (losses). 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 natural gas and oil sales. Realized gains (losses) are included in natural gas and oil sales in the month of related production.

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. 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 ASC 815. 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.

The components of natural gas and oil sales for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	($ in millions)			
Natural gas and oil sales	$ 785	$ 2,036	$ 2,280	$ 5,961
Realized gains (losses) on natural gas and oil derivatives	687	(246)	1,802	(454)
Unrealized gains (losses) on non-qualifying natural gas and oil derivatives	(278)	4,543	(484)	134
Unrealized gains (losses) on ineffectiveness of cash flow hedges	(7)	75	83	(54)
Total natural gas and oil sales	$ 1,187	$ 6,408	$ 3,681	$ 5,587

To mitigate our exposure to the fluctuation in price of diesel fuel which is used in our exploration and development activities, we have entered into diesel swaps from October 2009 to March 2010 for a total of 19,800,000 gallons with an average fixed price of $1.58 per gallon. Chesapeake pays the fixed price and receives the floating price. The fair value of these swaps as of September 30, 2009 was an asset of $6 million.

Interest Rate Risk

The table below presents principal cash flows ($ in millions) 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	$ 10,490	$ 11,354
Average interest rate	—	—	—	—	7.6%	6.1%	6.2%
Long-term debt – variable rate	$ —	$ —	$ —	$ 1,630	$ —	$ —	$ 1,630
Average interest rate	—	—	—	2.91%	—	—	2.91%

(a) This amount does not include the discount included in long-term debt of ($991) million and interest rate derivatives of $80 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 fluctuations in earnings or cash flow due to changes in market interest rates. However, changes in interest rates do affect the fair value of our fixed-rate debt.

Interest Rate Derivatives

To mitigate our exposure to volatility in interest rates related to our senior notes and credit facilities, we enter into interest rate derivatives. As of September 30, 2009 our interest rate derivative instruments were comprised of the following types of instruments:

- Swaps: Chesapeake enters into fixed-to-floating interest rate swaps (we receive a fixed interest rate and pay a floating market rate) to mitigate our exposure to changes in the fair value of our senior notes. We enter into floating-to-fixed interest rate swaps (we receive a floating market rate and pay a fixed interest rate) to manage our interest rate exposure related to our bank credit facility borrowings.

- Collars: These instruments contain a fixed floor rate (floor) and a ceiling rate (cap). If the floating rate is above the cap, we have a net receivable from the counterparty and if the floating rate is below the floor, we have a net payable to the counterparty. If the floating rate is between the floor and the cap, there is no payment due from either party. Collars are used to manage our interest rate exposure related to our bank credit facilities borrowings.

- Call options: Occasionally we sell call options for a premium when we think it is more likely that the option will expire unexercised. The option allows the counterparty to terminate an open swap at a specific date.

- Swaptions: Occasionally we sell an option to a counterparty for a premium which allows the counterparty to enter into a swap with us on a specific date.

As of September 30, 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						
April 2009 – December 2018	$ 1,200	8.02%	1 – 6 mL plus 537 bp	Yes	$ —	$ (29)
May 2008 – November 2020	$ 750	8.63%	1 mL plus 562 bp	No	$ (3)	$ 1
Call Options						
November 2009	$ 250	6.88%	1 mL plus 287 bp	No	$ —	$ (9)
Floating-to-Fixed Interest Rate:						
Swaps						
November 2007 – July 2012	$ 1,375	3.30%	1 – 6 mL	No	$ —	$ (46)
Collars[a]						
August 2007 – August 2010	$ 250	4.52%	6 mL	No	$ —	$ (8)
					$ (3)	$ (91)

(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 Period, we closed interest rate derivatives for gains totaling $50 million, of which $25 million was recognized in interest expense. The remaining $25 million was from interest rate derivatives designated as fair value hedges which are accounted for as a reduction to our senior notes. The settlement amounts received will be amortized as a reduction to realized interest expense over the remaining term of the related senior notes ranging from four to eleven years.

For interest rate derivative instruments designated as fair value hedges (in accordance with ASC 815), 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 interest rate derivative transactions are reflected as adjustments to interest expense on the condensed consolidated statements of operations. The components of interest expense for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	($ in millions)			
Interest expense on senior notes	$ 195	$ 171	$ 572	$ 472
Interest expense on credit facilities	18	23	47	83
Capitalized interest	(153)	(166)	(467)	(390)
Realized (gains) losses on interest rate derivatives	(7)	5	(19)	1
Unrealized (gains) losses on interest rate derivatives	(20)	(8)	(106)	(9)
Amortization of loan discount and other	10	9	25	29
Total interest expense	$ 43	$ 34	$ 52	$ 186

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 ASC 815. The fair value of the cross currency swap is recorded on the condensed consolidated balance sheet as an asset of $44 million at September 30, 2009. The euro-denominated debt in notes payable has been adjusted to $878 million at September 30, 2009 using an exchange rate of $1.4630 to €1.00.

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*

We refer you 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.

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 and our Form 10-Q for the 2009 second quarter. 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 September 30, 2009:

Period	Total Number of Shares Purchased[a]	Average Price Paid Per Share [a]	Total Number Of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs[b]
July 1, 2009 through July 31, 2009	727,462	$ 19.173	—	—
August 1, 2009 through August 31, 2009	1,363,414	23.349	—	—
September 1, 2009 through September 30, 2009	31,275	28.495	—	—
Total	2,122,151	$ 21.993	—	—

(a) Represents 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.

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.

ITEM 6. ***Exhibits***

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

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File Number	Exhibit	Filing Date	Filed Herewith	Furnished Herewith
3.1.1	Chesapeake's Restated Certificate of Incorporation, as amended.	10-Q	001-13726	3.1.1	08/10/2009		
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.	10-K	001-13726	3.1.5	02/29/2008		
3.1.5	Certificate of Designation of 4.5% Cumulative Convertible Preferred Stock.	10-Q	001-13726	3.1.6	08/11/2008		
3.2	Chesapeake's Amended and Restated Bylaws.	8-K	001-13726	3.1	11/17/2008		
10.1.1	Chesapeake's 2003 Stock Incentive Plan, as amended					X	
10.1.14	Chesapeake's Amended and Restated Long Term Incentive Plan.					X	
10.2.2	Employment Agreement dated as of September 30, 2009 between Marcus C. Rowland and Chesapeake Energy Corporation.	8-K	001-13726	10.2.2	10/01/2009		
10.2.3	Employment Agreement dated as of September 30, 2009 between Steven C. Dixon and Chesapeake Energy Corporation.	8-K	001-13726	10.2.3	10/01/2009		
10.2.4	Employment Agreement dated as of September 30, 2009 between J. Mark Lester and Chesapeake Energy Corporation.	8-K	001-13726	10.2.4	10/01/2009		
10.2.5	Employment Agreement dated as of September 30, 2009 between Douglas J. Jacobson and Chesapeake Energy Corporation.	8-K	001-13726	10.2.5	10/01/2009		
10.2.7	Form of Employment Agreement between Senior Vice President 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	
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	

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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	
101.INS	XBRL Instance Document.						X
101.SCH	XBRL Taxonomy Extension Schema Document.						X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.						X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.						X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.						X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.						X

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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
Date: November 9, 2009	By:	/s/ AUBREY K. MCCLENDON Aubrey K. McClendon *Chairman of the Board and Chief Executive Officer*
Date: November 9, 2009	By:	/s/ MARCUS C. ROWLAND Marcus C. Rowland *Executive Vice President and Chief Financial Officer*

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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		
3.2	Chesapeake's Amended and Restated Bylaws.	8-K	001-13726	3.1	11/17/2008		
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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.						X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.						X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.						X

Exhibit 10.1.1

CHESAPEAKE ENERGY CORPORATION

2003 STOCK INCENTIVE PLAN

(as amended through September 24, 2009)

CHESAPEAKE ENERGY CORPORATION
2003 STOCK INCENTIVE PLAN

CHESAPEAKE ENERGY CORPORATION
2003 STOCK INCENTIVE PLAN

ARTICLE I
PURPOSE

Section 1.1 *Purpose*. This 2003 Stock Incentive Plan is established by Chesapeake Energy Corporation (the "Company") to create incentives which are designed to motivate Employees and Consultants to put forth maximum effort toward the success and growth of the Company and to enable the Company to attract and retain experienced individuals who by their position, ability and diligence are able to make important contributions to the Company's success. Toward these objectives, the Plan provides for the granting of Options and Restricted Stock Awards to Employees and Consultants on the terms and subject to the conditions set forth in the Plan. The Plan is designed to align the interests of participants with those of shareholders through the use of stock-based incentives.

Section 1.2 *Establishment*. The Plan is effective as of April 15, 2003 and for a period of 10 years from such date. The Plan will terminate on April 14, 2013; however, it will continue in effect until all matters relating to the exercise of Options, distribution of Awards and administration of the Plan have been settled.

Section 1.3 *Shares Subject to the Plan*. Subject to the limitations and adjustments set forth in this Plan, Awards may be made under this Plan for a total of 10,000,000 shares of Common Stock.

Section 1.4 *Shareholder Approval.* The Plan shall be subject to Shareholder Approval, which must occur within the period ending twelve months after the date the Plan is adopted by the Board. Pending such Shareholder Approval, Awards under the Plan may be granted, but Options may not be exercised nor may Restricted Stock Awards vest prior to receipt of such Shareholder Approval. In the event such Shareholder Approval is not obtained within such twelve-month period, all such Awards shall be void.

ARTICLE II
DEFINITIONS

Section 2.1 *"Affiliated Entity"* means any partnership or limited liability company in which at least 50% of voting power thereof is owned or controlled, directly or indirectly, by the Company or one or more of its Subsidiaries or Affiliated Entities or a combination thereof.

Section 2.2 *"Award"* means, individually or collectively, any Option or Restricted Stock Award granted under the Plan to an Eligible Person by the applicable Committee pursuant to such terms, conditions, restrictions, and/or limitations, if any, as the applicable Committee may establish by the Award Agreement or otherwise.

Section 2.3 *"Award Agreement"* means any written instrument that establishes the terms, conditions, restrictions, and/or limitations applicable to an Award in addition to those established by this Plan and by the Committee's exercise of its administrative powers.

Section 2.4 *"Board"* means the Board of Directors of the Company.

Section 2.5 *"Change of Control"* means, for Participants other than Executive Officers, the occurrence of any of the following:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) 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 2.5 the following acquisitions by a Person will not constitute a Change of Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph (iii) below;

(ii) 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;

(iii) 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: (A) 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, (B) 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, 20% 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 (C) 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; or

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

For Executive Officers, a Change of Control means the occurrence of any of the foregoing events or a change of control as defined in such Executive Officer's employment agreement in force at the time of determination.

Section 2.6 *"Code"* means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any Section of the Code shall be deemed to include any amendments or successor provisions to such Section and any regulations under such Section.

Section 2.7 *"Committee"* has the meaning set forth in Section 3.1.

Section 2.8 *"Common Stock"* means the common stock, par value $.01 per share, of the Company and, after substitution, such other stock as shall be substituted therefor as provided in Article VII or Article IX of the Plan.

Section 2.9 *"Compensation Committee"* means a committee designated by the Board which will consist of not less than two members of the Board who meet the definition of "non-employee directors" pursuant to Rule 16b-3, or any successor rule, promulgated under Section 16 of the Exchange Act unless another committee is designated by the Board of Directors.

Section 2.10 *"Consultant"* means any person who is engaged by the Company, a Subsidiary or an Affiliated Entity to render consulting or advisory services.

Section 2.11 *"Date of Grant"* means the date on which the grant of an Award is authorized by the Committee or such later date as may be specified by the Committee in such authorization.

Section 2.12 *"Disability"* has the meaning set forth in Section 22(e)(3) of the Code.

Section 2.13 *"Eligible Person"* means any Employee or Consultant.

Section 2.14 *"Employee"* means any employee of the Company, a Subsidiary or an Affiliated Entity.

Section 2.15 *"Employee Compensation Committee"* means the Employee Compensation and Benefits Committee ("ECBC") designated by the Board which shall consist of not less than one member of the Board and may include officers of the Company. In the event the ECBC has both director and officer members, the director(s) serving on the ECBC shall constitute a separate committee for purposes of approving and authorizing the issuance of Common Stock pursuant to any Award recommended by the ECBC.

Section 2.16 *"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

Section 2.17 *"Executive Officer Participants"* means Participants who are subject to the provisions of Section 16 of the Exchange Act with respect to the Common Stock.

Section 2.18 *"Fair Market Value"* means, as of any date, (i) if the principal market for the Common Stock is a national securities exchange or the Nasdaq stock market, the closing price of the Common Stock on that date on the principal exchange on which the Common Stock is then listed or admitted to trading; or (ii) if sale prices are not available or if the principal market for the Common Stock is not a national securities exchange and the Common Stock is not quoted on the Nasdaq stock market, the average of the highest bid and lowest asked prices for the Common Stock on such day as reported on the Nasdaq OTC Bulletin Board Service or by the National Quotation Bureau, Incorporated or a comparable service. If the day is not a business day, and as a result, clauses (i) and (ii) are inapplicable, the Fair Market Value of the Common Stock shall be determined as of the last preceding business day. If clauses (i) and (ii) are otherwise inapplicable, the Fair Market Value of the Common Stock shall be determined in good faith by the Committee.

Section 2.19 *"Incentive Stock Option"* means an Option within the meaning of Section 422 of the Code.

Section 2.20 *"Non-Executive Officer Participants"* means Participants who are not subject to the provisions of Section 16 of the Exchange Act.

Section 2.21 *"Nonqualified Stock Option"* means an Option to purchase shares of Common Stock which is not an Incentive Stock Option within the meaning of Section 422(b) of the Code.

Section 2.22 *"Option"* means an Incentive Stock Option or Nonqualified Stock Option granted under Article V of the Plan.

Section 2.23 *"Participant"* means an Eligible Person to whom an Award has been granted by the Committee under the Plan.

Section 2.24 *"Plan"* means the Chesapeake Energy Corporation 2003 Stock Incentive Plan.

Section 2.25 *"Restricted Stock Award"* means an Award granted to an Eligible Person under Article VI of the Plan.

Section 2.26 *"Shareholder Approval"* means approval by the holders of a majority of the outstanding shares of Common Stock, present or represented and entitled to vote at a meeting called for such purposes.

Section 2.27 *"Subsidiary"* shall have the same meaning set forth in Section 424(f) of the Code.

ARTICLE III
ADMINISTRATION

Section 3.1 *Administration of the Plan; the Committee*. The Employee Compensation Committee shall administer the Plan with respect to Non-Executive Officer Participants, including the grant of Awards, and the Compensation Committee shall administer the Plan with respect to Executive Officer Participants, including the grant of Awards. Accordingly, as used in the Plan, the term "Committee" shall mean the Employee Compensation Committee if it refers to Plan administration affecting Non-Executive Officer Participants or the Compensation Committee if it refers to Plan administration affecting Executive Officer Participants. Although the Committee is generally responsible for the administration of the Plan, the Board in its sole discretion may take any action under the Plan that would otherwise be the responsibility of the Committee.

Unless otherwise provided in the bylaws of the Company or resolutions adopted from time to time by the Board establishing the Committee, the Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, however caused, shall be filled by the Board. The Committee shall hold meetings at such times and places as it may determine. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present shall be the valid acts of the Committee. Any action which may be taken at a meeting of the Committee may be taken without a meeting if all the members of the Committee consent to the action in writing.

Subject to the provisions of the Plan and review by the Board, the Committee shall have exclusive power to:

(a) Select the Eligible Persons to participate in the Plan.

(b) Determine the time or times when Awards will be granted.

(c) Determine the form of Award, whether an Incentive Stock Option, a Nonqualified Stock Option or a Restricted Stock Award, the number of shares of Common Stock subject to any Award, all the terms, conditions (including performance requirements), restrictions and/or limitations, if any, of an Award, including the time and conditions of exercise or vesting, and the terms of any Award Agreement, which may include the waiver or amendment of prior terms and conditions or acceleration of the vesting or exercise of an Award under certain circumstances determined by the Committee. However, the Committee will not reprice outstanding Awards.

(d) Determine whether Awards will be granted singly or in combination.

(e) Take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan.

Section 3.2 *Committee to Make Rules and Interpret Plan*. The Committee in its sole discretion shall have the authority, subject to the provisions of the Plan and review by the Board, to establish, adopt, or revise such rules and regulations and to make all such determinations relating to the Plan as it may deem necessary or advisable for the administration of the Plan. The Committee's interpretation of the Plan or any Awards granted pursuant hereto and all decisions and determinations by the Committee with respect to the Plan shall be final, binding, and conclusive on all parties unless otherwise determined by the Board.

ARTICLE IV
GRANT OF AWARDS

The Committee may, from time to time, grant Awards to one or more Participants, provided, however, that:

(a) Any shares of Common Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise shall be available again for grant under the Plan.

(b) Common Stock delivered by the Company upon exercise of an Option or upon payment of an Award under the Plan may be authorized and unissued Common Stock or Common Stock held in the treasury of the Company.

(c) The Committee shall, in its sole discretion, determine the manner in which fractional shares arising under this Plan shall be treated.

(d) Subject to Article VII, the aggregate number of shares of Common Stock made subject to Options and Restricted Stock Awards granted to any Employee in any calendar year may not exceed two million shares.

ARTICLE V
STOCK OPTIONS

Section 5.1 *Grant of Options.* The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Nonqualified Stock Options to any Eligible Persons and Incentive Stock Options to Employees. Subject to the limitations of Section 5.2(e), these Options may be Incentive Stock Options or Nonqualified Stock Options, or a combination of both. Each grant of an Option shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 5.2.

Section 5.2 *Conditions of Options*. Each Option so granted shall be subject to the following conditions:

(a) *Exercise Price*. As limited by Section 5.2(e) below, the Award Agreement for each Option shall state the exercise price set by the Committee on the Date of Grant. No Option shall be granted at an exercise price which is less than the Fair Market Value of the Common Stock on the Date of Grant.

(b) *Form of Payment*. The payment of the exercise price of an Option shall be subject to the following:

(i) The full exercise price for shares of Common Stock purchased upon the exercise of any Option shall be paid at the time of such exercise.

(ii) The exercise price shall be payable in cash (including a check acceptable to the Committee, bank draft or money order) or by tendering, by either actual delivery of shares or by attestation, shares of Common Stock acceptable to the Committee and valued at Fair Market Value as of the day of exercise, or any combination thereof, as determined by the Committee.

(iii) The Committee may permit an Option granted under the Plan to be exercised by a participant in conjunction with a broker-dealer acting on behalf of a Participant, such broker-dealer to remit the exercise price and any applicable withholding taxes directly to the Company, through procedures approved by the Committee.

(c) *Exercise of Options*. Options granted under the Plan shall be exercisable, in whole or in such installments and at such times, and shall expire at such time, as shall be provided by the Committee in the Award Agreement. Exercise of an Option shall be by written notice stating the election to exercise in the form and manner determined by the Committee. Every share of Common Stock acquired through the exercise of an Option shall be deemed to be fully paid at the time of exercise and payment of the exercise price. Upon the exercise of any Option, the Company shall issue and deliver to the Participant who exercised the Option a certificate representing the number of shares of Common Stock purchased thereby.

(d) *Other Terms and Conditions*. Among other conditions that may be imposed by the Committee, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which Participants must be employed by the Company, a Subsidiary or Affiliated Entity, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) the maximum period that Participants will be allowed to be inactively employed or on a leave of absence before their vesting is suspended until they return to active employment; (v) conditions under which such Options or shares may be subject to forfeiture; (vi) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time; (vii) the achievement by the Company of specified performance criteria; and (viii) protection of business matters.

(e) *Special Restrictions Relating to Incentive Stock Options*. Options issued in the form of Incentive Stock Options shall only be granted to Employees of the Company or a Subsidiary and not to Employees of an Affiliated Entity unless such entity is classified as a “disregarded entity” of the Company or the applicable Subsidiary under the Code. In addition to being subject to all applicable terms, conditions, restrictions and/or limitations established by the Committee, Options issued in the form of Incentive Stock Options shall comply with the requirements of Section 422 of the Code (or any successor Section thereto), including, without limitation, the requirement that the exercise price of an Incentive Stock Option not be less than 100% of the Fair Market Value of the Common Stock on the Date of Grant, the requirement that each Incentive Stock Option, unless sooner exercised, terminated or canceled, expire no later than 10 years from its Date of Grant, and the requirement that the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under this Plan or any other plan of the Company or any Subsidiary) not exceed $100,000. Incentive Stock Options which are in excess of the applicable $100,000 limitation will be automatically recharacterized as Nonqualified Stock Options as provided under Section 5.3 of this Plan. No Incentive Stock Options shall be granted to any Employee if, immediately before the grant of an Incentive Stock Option, such Employee owns more than 10% of the total combined voting power of all classes of stock of the Company or its Subsidiaries (as determined in accordance with the stock attribution rules contained in Sections 422 and 424(d) of the Code). Provided, the preceding sentence shall not apply if, at the time the Incentive Stock Option is granted, the exercise price is at least 110% of the Fair Market Value of the Common Stock subject to the Incentive Stock Option, and such Incentive Stock Option by its terms is exercisable no more than five years from the date such Incentive Stock Option is granted.

(f) *Application of Funds*. The proceeds received by the Company from the sale of Common Stock issued upon the exercise of Options will be used for general corporate purposes.

(g) *Shareholder Rights*. No Participant shall have any rights as a shareholder with respect to any share of Common Stock subject to an Option prior to the purchase of such share of Common Stock by exercise of the Option.

Section 5.3 *Options Not Qualifying as Incentive Stock Options*. With respect to all or any portion of any Option granted under this Plan not qualifying as an “incentive stock option” under Section 422 of the Code, such Option shall be considered a Nonqualified Stock Option granted under this Plan for all purposes. Further, this Plan and any Incentive Stock Options granted hereunder shall be deemed to have incorporated by reference all the provisions and requirements of Section 422 of the Code (and the Treasury Regulations issued thereunder) necessary to ensure that all Incentive Stock Options granted hereunder shall be “incentive stock options” described in Section 422 of the Code. Further, in the event that the $100,000 limitation contained in Section 5.2(e) herein is exceeded in any Incentive Stock Option granted under this Plan, the portion of the Incentive Stock Option in excess of such limitation shall be treated as a Nonqualified Stock Option under this Plan subject to the terms and provisions of the applicable Award Agreement, except to the extent modified to reflect recharacterization of the Incentive Stock Option as a Nonqualified Stock Option.

Section 5.4 *Nonassignability*. Options are not transferable otherwise than by will or the laws of descent and distribution. Any attempted transfer, assignment, pledge, hypothecation or other disposition of, or the levy of execution, attachment or similar process upon, any Option contrary to the provisions hereof shall be void and ineffective, shall give no right to any purported transferee, and may, at the sole discretion of the Committee, result in forfeiture of the Option involved in such attempt.

ARTICLE VI
RESTRICTED STOCK AWARDS

Section 6.1 *Grant of Restricted Stock Awards*. The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant a Restricted Stock Award to any Eligible Person. Restricted Stock Awards shall be awarded in such number and at such times during the term of the Plan as the Committee shall determine. Each Restricted Stock Award may be evidenced in such manner as the Committee deems appropriate, including, without limitation, a book-entry registration or issuance of a stock certificate or certificates into escrow until the restrictions associated with such Award are satisfied, and by an Award Agreement setting forth the terms of such Restricted Stock Award.

Section 6.2 *Conditions of Restricted Stock Awards*. The grant of a Restricted Stock Award shall be subject to the following:

(a) *Restriction Period.* Each Restricted Stock Award shall require the holder to remain in the employment of the Company, a Subsidiary, or an Affiliated Entity for a prescribed period (a “Restriction Period”). The Committee shall determine the Restriction Period or Periods that shall apply to the shares of Common Stock covered by each Restricted Stock Award or portion thereof. In addition to any time vesting conditions determined by the Committee, Restricted Stock Awards may be subject to the achievement by the Company of specified performance criteria based upon the Company’s achievement of target levels of earnings per share, share price, net income, cash flows, reserve additions or replacements, production volume, finding and operating costs, drilling results, acquisitions and divestitures, risk management activities, return on equity, and/or total or comparative shareholder return, or other individual criteria as determined by the Committee. At the end of the Restriction Period, assuming the fulfillment of any other specified vesting conditions, the restrictions imposed by the Committee shall lapse with respect to the shares of Common Stock covered by the Restricted Stock Award or portion thereof.

(b) *Restrictions.* The holder of a Restricted Stock Award may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of the shares of Common Stock represented by the Restricted Stock Award during the applicable Restriction Period. The Committee shall impose such other restrictions and conditions on any shares of Common Stock covered by a Restricted Stock Award as it may deem advisable including, without limitation, restrictions under applicable Federal or state securities laws, and may legend the certificates representing the shares of Common Stock subject to the Restricted Stock Award to give appropriate notice of such restrictions.

(c) *Shareholder Rights*. During any Restriction Period, the Committee may, in its discretion, grant to the holder of a Restricted Stock Award all or any of the rights of a shareholder with respect to the shares, including, but not by way of limitation, the right to vote such shares and to receive dividends. If any dividends or other distributions are paid in shares of Common Stock, all such shares shall be subject to the same restrictions on transferability as the shares of Common Stock subject to the Restricted Stock Award with respect to which they were paid.

ARTICLE VII
STOCK ADJUSTMENTS

Subject to the provisions of Article IX of this Plan, in the event that the shares of Common Stock, as presently constituted, shall be changed into or exchanged for a different number or kind or shares of stock or other securities of the Company or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, combination of shares or otherwise), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, then there shall be substituted for or added to each share available under and subject to the Plan as provided in Section 1.3 hereof, and each share then subject or thereafter subject or which may become subject to Awards under the Plan, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case may be, on a fair and equivalent basis in accordance with the applicable provisions of Section 424 of the Code; provided, however, in no such event will such adjustment result in a modification of any Award as defined in Section 424(h) of the Code. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to the Plan, or in any Award theretofore granted or which may be granted under the Plan, such adjustments shall be made in accordance with such determination, except that no adjustment of the number of shares of Common Stock available under the Plan or to which any Award relates that would otherwise be required shall be made unless and until such adjustment either by itself or with other adjustments not previously made would require an increase or decrease of at least 1% of the number of shares of Common Stock available under the Plan or to which any Award relates immediately prior to the making of such adjustment (the "Minimum Adjustment"). Any adjustment representing a change of less than such minimum amount shall be carried forward and made as soon as such adjustment together with other adjustments required by this Article VII and not previously made would result in a Minimum Adjustment. Notwithstanding the foregoing, any adjustment required by this Article VII which otherwise would not result in a Minimum Adjustment shall be made with respect to shares of Common Stock relating to any Award immediately prior to exercise or settlement of such Award.

No fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

ARTICLE VIII
GENERAL

Section 8.1 *Amendment or Termination of Plan*. The Board may suspend or terminate the Plan at any time. In addition, the Board may, from time to time, amend the Plan in any manner, but may not adopt any amendment without Shareholder Approval if (i) the amendment relates to Incentive Stock Options and Section 422 of the Code requires Shareholder Approval of such amendment, or (ii) in the opinion of counsel to the Company, Shareholder Approval is required by any federal or state laws or regulations or the rules of any stock exchange on which the common stock may be listed.

Section 8.2 *Acceleration of Awards on Death, Disability or Other Special Circumstances*. With respect to (i) a Participant who terminates employment due to a Disability, (ii) the personal representative of a deceased Participant, or (iii) any other Participant who terminates employment upon the occurrence of special circumstances (as determined by the Committee), the Committee, in its sole discretion, may permit the purchase of all or any part of the shares subject to any unvested Option or waive the vesting requirements of a Restricted Stock Award on the date of the Participant's termination of employment due to a Disability, death or special circumstances, or as the Committee otherwise so determines. With respect to Options which have already vested at the date of such termination or the vesting of which is accelerated by the Committee in accordance with the foregoing provision, the Participant or the personal representative of a deceased Participant shall have the right to exercise such vested Options within such period(s) as the Committee shall determine.

Section 8.3 *Withholding Taxes*. A Participant must pay in cash to the Company the amount of taxes required to be withheld by law upon the exercise of an Option. Required withholding taxes associated with a Restricted Stock Award must also be paid in cash unless the Committee permits a Participant to pay the amount of taxes required by law to be withheld from a Restricted Stock Award by directing the Company to withhold from any Award the number of shares of Common Stock having a Fair Market Value on the date of vesting equal to the amount of required withholding taxes.

Section 8.4 *Certain Additional Payments by the Company*. The Committee may, in its sole discretion, provide in any Award Agreement for certain payments by the Company in the event that acceleration of vesting of any Award under the Plan is subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (such excise tax, interest and penalties, collectively, the "Excise Tax"). An Award Agreement may provide that the Participant shall be entitled to receive a payment (a "Gross-Up Payment") in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, the Participant retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such acceleration of vesting of any Award.

Section 8.5 *Regulatory Approval and Listings*. The Company shall use its best efforts to file with the Securities and Exchange Commission as soon as practicable following the date this Plan is effective, and keep continuously effective and usable, a Registration Statement on Form S-8 with respect to shares of Common Stock subject to Awards hereunder.

Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates representing shares of Common Stock evidencing Awards prior to:

(a) the obtaining of any approval from, or satisfaction of any waiting period or other condition imposed by, any governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable;

(b) the listing of such shares on any exchange on which the Common Stock may be listed; and

(c) the completion of any registration or other qualification of such shares under any state or federal law or regulation of any governmental body which the Committee shall, in its sole discretion, determine to be necessary or advisable.

Section 8.6 *Right to Continued Employment*. Participation in the Plan shall not give any Participant any right to remain in the employ of the Company, a Subsidiary or an Affiliated Entity. Further, the adoption of this Plan shall not be deemed to give any Employee or Consultant or any other individual any right to be selected as a Participant or to be granted an Award.

Section 8.7 *Reliance on Reports*. Each member of the Committee and each member of the Board shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company and its Subsidiaries and upon any other information furnished in connection with the Plan by any person or persons other than the Committee or Board member. In no event shall any person who is or shall have been a member of the Committee or the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information or for any action taken, including the furnishing of information, or failure to act, if in good faith.

Section 8.8 *Construction*. The titles and headings of the sections in the Plan are for the convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

Section 8.9 *Governing Law*. The Plan shall be governed by and construed in accordance with the laws of the State of Oklahoma except as superseded by applicable federal law.

ARTICLE IX
ACCELERATION OF AWARDS UPON CORPORATE EVENT

If the Company shall, pursuant to action by the Board, at any time propose to dissolve or liquidate or merge into, consolidate with, or sell or otherwise transfer all or substantially all of its assets to another corporation and provision is not made pursuant to the terms of such transaction for the assumption by the surviving, resulting or acquiring corporation of outstanding Options under the Plan, or for the substitution of new awards therefor, the Committee shall cause written notice of the proposed transaction to be given to each Participant no less than forty days prior to the anticipated effective date of the proposed transaction, and the Participant's Award shall become 100% vested. Prior to a date specified in such notice, which shall be not more than 10 days prior to the anticipated effective date of the proposed transaction, each Participant shall have the right to exercise his or her Option to purchase any or all of the Common Stock then subject to such Option or to receive the shares subject to any unvested Restricted Stock Award, free of any restrictions. Each Participant, by so notifying the Company in writing, may, in exercising his or her Option, condition such exercise upon, and provide that such exercise shall become effective immediately prior to the consummation of the transaction, in which event such Participant need not make payment for the Common Stock to be purchased upon exercise of such Option until five days after receipt of written notice by the Company to such Participant that the transaction has been consummated. If the transaction is consummated, each Option, to the extent not previously exercised prior to the date specified in the foregoing notice, shall terminate on the effective date such transaction is consummated. If the transaction is abandoned, (i) any Common Stock not purchased upon exercise of such Option shall continue to be available for purchase in accordance with the other provisions of the Plan and (ii) to the extent that any Option not exercised prior to such abandonment and any Restricted Stock Award shall have vested solely by operation of this Article IX, such vesting shall be deemed voided as of the time such acceleration otherwise occurred pursuant to Article IX, and the vesting schedule set forth in the Participant's Award Agreement shall be reinstituted as of the date of such abandonment.

Upon the occurrence of a Change of Control, in the event that the provisions of the foregoing paragraph are not already invoked, each Participant shall have the right to exercise his or her Option to purchase any or all of the Common Stock then subject to such Option or to receive the shares subject to any unvested Restricted Stock Award, free of any restrictions. Each Participant, by so notifying the Company in writing, may, in exercising his or her Option, condition such exercise upon, and provide that such exercise shall become effective immediately prior to the Change of Control, in which event such Participant need not make payment for the Common Stock to be purchased upon exercise of such Option until five days after receipt of written notice by the Company to such Participant that the Change of Control has occurred. If the Change of Control has occurred, each Option, to the extent not previously exercised prior to the date specified in the foregoing notice, shall terminate on the effective date of such Change of Control. If the Change of Control is abandoned, (i) any Common Stock not purchased upon exercise of such Option shall continue to be available for purchase in accordance with the other provisions of the Plan and (ii) to the extent that any Option not exercised prior to such abandonment and any Restricted Stock Award shall have vested solely by operation of this Article IX, such vesting shall be deemed voided as of the time such acceleration otherwise occurred pursuant to Article IX, and the vesting schedule set forth in the Participant's Award Agreement shall be reinstituted as of the date of such abandonment.

CHESAPEAKE ENERGY CORPORATION
AMENDED AND RESTATED LONG TERM INCENTIVE PLAN

1. PURPOSE

Section 1.1 *Background.* The original Long Term Incentive Plan was approved by shareholders on June 10, 2005, and amendments to the Plan were approved by shareholders on June 9, 2006, June 8, 2007, June 6, 2008 and June 12, 2009.

Section 1.2 *Purpose.* This Long Term Incentive Plan is established by Chesapeake Energy Corporation (the "Company") to foster and promote the sustained progress, growth and profitability of the Company by:

(a) Attracting, retaining and motivating Employees, Non-Employee Directors and Consultants;

(b) allowing Employees, Non-Employee Directors and Consultants to acquire a proprietary and vested interest in the growth and performance of the Company;

(c) providing incentives and rewards to Employees, Non-Employee Directors and Consultants who are in a position to contribute materially to the success and long-term objectives of the Company; and

(d) aligning the financial interests of Employees, Non-Employee Directors and Consultants with those of the Company's shareholders.

Section 1.3 *Effective Date.* The Plan was effective as of October 1, 2004. The authority to issue Awards under the Plan will terminate on September 30, 2014 and the remaining terms of the Plan will continue in effect thereafter until all matters relating to the exercise and settlement of Awards and administration of the Plan have been completed.

2. DEFINITIONS

Section 2.1 *"Affiliated Entity"* means any partnership or limited liability company in which at least 50% of voting power thereof is owned or controlled, directly or indirectly, by the Company or one or more of its Subsidiaries or Affiliated Entities or a combination thereof.

Section 2.2 *"Appreciation"* means, with respect to a SAR (as hereafter defined), the amount by which the Fair Market Value of a share of Common Stock on the date of exercise of the SAR exceeds either (i) the exercise price of the Option to which a tandem SAR relates, in the case of a tandem SAR, or (ii) the Fair Market Value of a share of Common Stock on the Date of Grant of the SAR, in the case of a stand-alone SAR.

Section 2.3 *"Award"* means, individually or collectively, any Option, SAR, Performance Share, Restricted Stock, Other Stock Award or Cash Award granted under the Plan to an Eligible Person pursuant to such terms, conditions, restrictions, and/or limitations, if any, as the applicable Committee may establish by the Award Agreement or otherwise.

Section 2.4 *"Award Agreement"* means any written or electronic instrument that establishes the terms, conditions, restrictions, and/or limitations applicable to an Award in addition to those established by this Plan and by the Committee's exercise of its administrative powers.

Section 2.5 *"Board"* means the Board of Directors of the Company.

Section 2.6 *"Cash Award"* means a cash bonus granted by the Committee to a Participant pursuant to Section 8.

Section 2.7 *"Change of Control"* means the occurrence of any of the following:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of 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 (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) 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 Section 2.7 the following acquisitions by a Person will not constitute a Change of Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph (iii) below;

(ii) 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;

(iii) 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: (A) 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, (B) 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 (C) 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; or

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

For Executive Officers, a Change of Control means the occurrence of any of the foregoing events; provided, however, if a change of control is defined in any Executive Officer's employment agreement with the Company, a Change of Control with respect to any Award granted to such Executive Officer under the Plan shall mean any of the events described in the definition of change of control in such Executive Officer's employment agreement in force at the time of determination.

Section 2.8 *"Code"* means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any Section of the Code shall be deemed to include any amendments or successor provisions to such Section and any regulations under such Section.

Section 2.9 *"Committee"* means the Compensation Committee of the Board (or any successor committee) or any other committee designated by the Board.

Section 2.10 *"Common Stock"* means the common stock, par value $.01 per share, of the Company and, after substitution, such other stock as shall be substituted therefor as provided in Section 3.3(b) of the Plan.

Section 2.11 *"Consultant"* means any person who is engaged by the Company, a Subsidiary or an Affiliated Entity to render consulting or advisory services.

Section 2.12 *"Date of Grant"* means the date on which the grant of an Award is made by the Committee.

Section 2.13 *"Disability"* has the meaning set forth in Section 409(A)(a)(2)(C) of the Code.

Section 2.14 *"Eligible Person"* means any Employee, Non-Employee Director, or Consultant.

Section 2.15 *"Employee"* means any employee of the Company, a Subsidiary or an Affiliated Entity or any person to whom an offer of employment with the Company, a Subsidiary or an Affiliated Entity is extended, as determined by the Committee.

Section 2.16 *"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

Section 2.17 *"Executive Officer Participants"* means Participants who are subject to the provisions of Section 16 of the Exchange Act with respect to the Common Stock.

Section 2.18 *"Fair Market Value"* means, as of any day, the closing price of the Common Stock on such day (or on the next preceding business day, if such day is not a business day or if no trading occurred on such day) as reported on the New York Stock Exchange or on such other securities exchange or reporting system as may be designated by the Committee. In the event that the price of a share of Common Stock shall not be so reported, the Fair Market Value of a share of Common Stock shall be determined by the Committee in its absolute discretion.

Section 2.19 *"Incentive Stock Option"* means an Option within the meaning of Section 422 of the Code.

Section 2.20 *"Non-Executive Officer Participants"* means Participants who are not subject to the provisions of Section 16 of the Exchange Act.

Section 2.21 *"Non-Employee Director"* shall have the meaning set forth in Rule 16b-3, or any successor rule, promulgated under Section 16 of the Exchange Act.

Section 2.22 *"Nonqualified Stock Option"* means an Option to purchase shares of Common Stock which is not an Incentive Stock Option within the meaning of Section 422(b) of the Code.

Section 2.23 *"Option"* means an Incentive Stock Option or Nonqualified Stock Option.

Section 2.24 *"Other Stock Award"* means any right granted to a Participant by the Committee under Section 7 of the Plan.

Section 2.25 *"Participant"* means an Eligible Person to whom an Award has been granted by the Committee under the Plan.

Section 2.26 *"Performance Award"* means any award of Performance Shares granted by the Committee under Section 6 of the Plan.

Section 2.27 *"Performance Measures"* means the Company's achievement of target levels of earnings per share, share price, net income, cash flows, reserve additions or replacements, production volume, finding costs, operating costs, overhead or other costs, drilling results, acquisitions and divestitures, risk management activities, return on equity, total or comparative shareholder return, a combination of or interrelationship among any of the foregoing, or other criteria, as determined by the Committee.

Section 2.28 *"Performance Share"* means the Common Stock subject to a Performance Award granted under Section 6 of the Plan, which may be delivered to the Participant upon the achievement of such performance goals during the Performance Period as specified by the Committee.

Section 2.29 *"Plan"* means the Chesapeake Energy Corporation Long Term Incentive Plan.

Section 2.30 *"Restricted Stock"* means the Common Stock issued under Section 5 which is subject to any restrictions that the Committee, in its discretion, may impose.

Section 2.31 *"SAR"* means a Stock Appreciation Right.

Section 2.32 *"Shareholder Approval"* means approval by the holders of a majority of the outstanding shares of Common Stock, present or represented and entitled to vote at a meeting called for such purposes.

Section 2.33 *"Stock Appreciation Right"* means a right, granted under Section 4, to an amount in Common Stock equal to any increase in the Fair Market Value of the Common Stock between the date on which the Stock Appreciation Right is granted and the date on which the right is exercised.

Section 2.34 *"Subsidiary"* shall have the same meaning set forth in Section 424(f) of the Code.

3 . ADMINISTRATION

Section 3.1 *Administration of the Plan; the Committee*. The Compensation Committee shall have overall authority to administer the Plan. The Board may designate another committee or committees to administer the Plan with respect to Non-Executive Officer Participants, subject to any terms or conditions established by the Committee. Hereafter, "Committee" shall mean the Compensation Committee, except when used in reference to Awards granted to Non-Executive Officer Participants, "Committee" shall mean any applicable committee designated by the Board.

Unless otherwise provided in the bylaws of the Company or resolutions adopted from time to time by the Board establishing the Committee, the Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, however caused, shall be filled by the Board. The Committee shall hold meetings at such times and places as it may determine. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present shall be the valid acts of the Committee. Any action which may be taken at a meeting of the Committee may be taken without a meeting if all the members of the Committee consent to the action in writing. Although the Committee is generally responsible for the administration of the Plan, the Board in its sole discretion may take any action under the Plan that would otherwise be the responsibility of the Committee, except as such action pertains to the administration of Awards to Non-Employee Directors.

Subject to the provisions of the Plan, the Committee shall have the authority to:

(a) Select the Eligible Persons to participate in the Plan.

(b) Determine the time or times when Awards will be granted.

(c) Determine the form of Award, the number of shares of Common Stock subject to any Award, all the terms, conditions (including performance requirements), restrictions and/or limitations, if any, of an Award, including the time and conditions of exercise or vesting, and the terms of any Award Agreement, which may include the waiver or amendment of prior terms and conditions or acceleration of the vesting or exercise of an Award under certain circumstances determined by the Committee (subject to Section 10.2 of the Plan). However, nothing in this Section 3.1 shall be construed to permit the repricing of any outstanding Award in violation of Section 4.3.

(d) Determine whether Awards will be granted singly or in combination.

(e) Determine whether, to what extent and under what circumstances Awards may be settled in cash or Common Stock.

(f) Determine whether any conditions applicable to an Award have been met and whether an Award will be paid at the end of a Performance Period.

(g) Employ attorneys, consultants, accountants and other advisors as deemed necessary or appropriate by the Committee.

(h) Take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan.

Section 3.2 *Committee to Make Rules and Interpret Plan*. The Committee in its sole discretion shall have the authority, subject to the provisions of the Plan, to establish, adopt, or revise such rules and regulations and to make all such determinations relating to the Plan as it may deem necessary or advisable for the administration of the Plan. The Committee's interpretation of the Plan or any Awards granted pursuant hereto and all decisions and determinations by the Committee with respect to the Plan shall be final, binding, and conclusive on all parties, unless otherwise determined by the Board.

Section 3.3 *Shares Subject to the Plan*. Subject to adjustment as provided in paragraph (b) below and subject to Section 3.4, the aggregate number of shares of Common Stock which are available for Awards under the Plan will not exceed thirty-one million, five hundred thousand (31,500,000) shares. Any of the authorized shares of Common Stock may be used for any of the types of Awards described in the Plan, except that no more than 3,000,000 shares of Common Stock may be issued pursuant to Incentive Stock Options. Common Stock delivered pursuant to an Award under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares. The Committee, in its sole discretion, shall determine the manner in which fractional shares arising under this Plan are treated. Additional restrictions or adjustments with respect to shares subject to the Plan are as follows:

(a) Subject to (b) below, the aggregate number of shares of Common Stock pursuant to Options and SARs granted to any Employee or Non-Employee Director in any calendar year under this Plan may not exceed 750,000 shares subject and the aggregate number of shares of Common Stock pursuant to Restricted Stock, Performance Awards and Other Stock Awards granted to any Employee or Non-Employee Director in any calendar year may not exceed 750,000 shares.

(b) In the event that the shares of Common Stock, as presently constituted, shall be changed into or exchanged for a different number or kind or shares of stock or other securities of the Company or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, combination of shares or other corporate event of similar nature), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, then there shall be substituted for or added to each share available under and subject to the Plan as provided herein, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case may be, to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights under such Awards. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to the Plan, or in any Award theretofore granted or which may be granted under the Plan, such adjustments shall be made in accordance with such determination.

No fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

Section 3.4 *Share Counting.* The following shares of Common Stock related to Awards will be available for issuance again under the Plan:

(a) Common Stock related to Awards paid in cash;

(b) Common Stock related to Awards that expire, are forfeited or cancelled or terminate for any other reason without the delivery of the Common Stock;

(c) Common Stock equal in number to the shares of Common Stock surrendered in payment of the exercise price of an Option; and

(d) Common Stock tendered or withheld in order to satisfy withholding tax obligations.

4. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

Section 4.1 *Grant of Options and SARs.* The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Nonqualified Stock Options and Stock Appreciation Rights (SARs) to Eligible Persons and Incentive Stock Options to Employees. SARs may be granted either alone or in tandem with concurrently or previously issued Options. Each grant of an Option or SAR shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 4.2.

Section 4.2 *Conditions of Options and SARs*. Each Option and SAR so granted shall be subject to the following conditions:

(a) *Exercise Price*. As limited by Section 4.2(e) below, the Award Agreement for each Option and SAR shall state the exercise price set by the Committee on the Date of Grant. No Option or SAR shall be granted at an exercise price which is less than the Fair Market Value of the Common Stock on the Date of Grant.

(b) *Exercise of Options and SARs*. Options and SARs granted under the Plan shall be exercisable, in whole or in such installments and at such times, and shall expire at such time, as shall be provided by the Committee in the Award Agreement. An SAR issued in tandem with an Option is only exercisable to the extent the related Option is exercisable and is subject to the conditions applicable to such Option. When a tandem SAR is exercised, the Option to which it relates shall cease to be exercisable to the extent of the number of shares with respect to which the tandem SAR is exercised. Similarly when the Option is exercised, the tandem SARs relating to the shares covered by such Option exercise shall terminate.

(c) *Form of Payment*. The payment of the exercise price of an Option by the Participant shall be made in cash, shares of Common Stock, a combination thereof or in such other manner as the Committee may specify in the applicable Award Agreement.

The payment of the Appreciation associated with the exercise of a SAR shall be made by the Company in shares of Common Stock.

(d) *Term of Option or SAR*. The term of an Option or SAR shall be determined by the Committee and specified in the applicable Award Agreement, except that no Option or SAR shall be exercisable after the expiration of ten years from the Date of Grant.

(e) *Special Restrictions Relating to Incentive Stock Options.* Options issued in the form of Incentive Stock Options shall only be granted to Employees of the Company or a Subsidiary and not to Employees of an Affiliated Entity unless such entity is classified as a "disregarded entity" of the Company or the applicable Subsidiary under the Code. In addition to being subject to all applicable terms, conditions, restrictions and/or limitations established by the Committee, Options issued in the form of Incentive Stock Options shall comply with the requirements of Section 422 of the Code (or any successor Section thereto), including, without limitation, the requirement that the exercise price of an Incentive Stock Option not be less than 100% of the Fair Market Value of the Common Stock on the Date of Grant, the requirement that each Incentive Stock Option, unless sooner exercised, terminated or canceled, expire no later than ten years from its Date of Grant, and the requirement that the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under this Plan or any other plan of the Company or any Subsidiary) not exceed $100,000. Incentive Stock Options which are in excess of the applicable $100,000 limitation will be automatically recharacterized as Nonqualified Stock Options. No Incentive Stock Options shall be granted to any Employee if, immediately before the grant of an Incentive Stock Option, such Employee owns more than 10% of the total combined voting power of all classes of stock of the Company or its Subsidiaries (as determined in accordance with the stock attribution rules contained in Sections 422 and 424(d) of the Code) unless the exercise price is at least 110% of the Fair Market Value of the Common Stock subject to the Incentive Stock Option, and such Incentive Stock Option by its terms is exercisable no more than five years from the date such Incentive Stock Option is granted.

(f) *Shareholder Rights*. No Participant shall have any rights as a shareholder with respect to any share of Common Stock subject to an Option or SAR prior to the purchase or receipt of such share of Common Stock by exercise of the Option or SAR. In addition, no Option or SAR granted under the Plan shall include any dividend equivalents.

Section 4.3 *No Repricing*. Except for adjustments made pursuant to Section 3.3(b), in no event will the Committee, without first obtaining Shareholder Approval, (i) decrease the exercise price of an Option or SAR after the Date of Grant; (ii) accept for surrender to the Company any outstanding Option or SAR granted under the Plan as consideration for the grant of a new Option or SAR with a lower exercise price; or (iii) repurchase from Participants any outstanding Options or SARs that have an exercise price per share higher than the then current Fair Market Value of a Share.

5. RESTRICTED STOCK AWARDS

Section 5.1 *Grant of Restricted Stock.* The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Restricted Stock to any Eligible Person. Restricted Stock shall be awarded in such number, for such purchase price (if any) and at such times during the term of the Plan as the Committee shall determine. Each grant of Restricted Stock shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 5.2. Restricted Stock issued pursuant to a Restricted Stock Award may be evidenced in such manner as the Committee deems appropriate, including, without limitation, a book-entry registration or issuance of a stock certificate or certificates into escrow until the restrictions associated with such Award are satisfied.

Section 5.2 *Conditions of Restricted Stock Awards*. The grant of Restricted Stock shall be subject to the following:

(a) *Restriction Period.* Each Restricted Stock Award shall require the holder to remain in the employment or otherwise be classified as an Eligible Person (or in the case of a Non-Employee Director, remain a director or consultant or be classified as another category of Eligible Person) of the Company, a Subsidiary, or an Affiliated Entity for a prescribed period (the "Restriction Period"). The Committee shall determine the Restriction Period or Periods that shall apply to the shares of Common Stock covered by each Award or portion thereof. In addition to any time vesting conditions determined by the Committee, Restricted Stock may be subject to the achievement by the Company of specified Performance Measures or other individual criteria as determined by the Committee. At the end of the Restriction Period, assuming the fulfillment of any other specified vesting conditions, the restrictions imposed by the Committee shall lapse with respect to the shares of Common Stock covered by the Award or portion thereof.

(b) *Code Section 162(m)*. If the Committee intends for a Restricted Stock Award to be granted and administered in a manner designed to preserve the deductibility of the resulting compensation in accordance with Section 162(m) of the Code, then Performance Measures applicable to such Award shall be established in writing by the Committee no later than the earlier of (i) 90 days after the commencement of the relevant Performance Period and (ii) the date as of which 25% of the Performance Period has elapsed. The Committee's discretion to modify or waive the Performance Measures related to the vesting of the Award may be restricted in order to comply with Section 162(m).

(c) *Forfeiture.* Except as otherwise determined by the Committee, upon termination of service or employment during the Restriction Period, all shares of Restricted Stock still subject to forfeiture shall be forfeited by the Participant and any purchase price paid by the Participant shall be returned to such Participant.

(d) *Shareholder Rights.* During any Restriction Period, the Committee may, in its discretion, grant to or withhold from the holder of Restricted Stock all or any of the rights of a shareholder with respect to the shares, including, but not by way of limitation, the right to vote such shares or to receive dividends. If any dividends or other distributions are paid in shares of Common Stock and distributed to the holder of Restricted Stock, all such shares shall be subject to the same restrictions on transferability as the shares of Common Stock subject to the Award with respect to which they were paid.

(e) *Minimum Vesting Condition.* The minimum Restriction Period applicable to any Restricted Stock that is not subject to performance criteria restricting the vesting of the Award shall be three years from the Date of Grant (subject to the provisions of Section 10.2).

6. PERFORMANCE AWARDS

Section 6.1 *Grant of Performance Shares*. The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Performance Shares to any Eligible Person. Performance Shares shall be awarded in such number and at such times during the term of the Plan as the Committee shall determine. Each Performance Award shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 6.2.

Section 6.2 *Conditions of Performance Awards.* The grant of Performance Shares shall be subject to the following:

(a) *Performance Period*. Performance Shares will be subject to the achievement of one or more performance goals by the Company or the Participant individually, measured for a prescribed period (the "Performance Period"), as specified by the Committee, such Performance Period to be not less than one year in duration. Such performance goals may be based upon the Company's achievement of Performance Measures or other individual criteria.

(b) *Code Section 162(m)*. If the Committee intends for a Performance Award to be granted and administered in a manner designed to preserve the deductibility of the resulting compensation in accordance with Section 162(m) of the Code, then the Performance Measures applicable to such Award shall be established in writing by the Committee no later than the earlier of (i) 90 days after the commencement of the relevant Performance Period and (ii) the date as of which 25% of the Performance Period has elapsed. The Committee's discretion to modify or waive the Performance Measures to the vesting of the Award may be restricted in order to comply with Section 162(m).

(c) *Payment Respecting Performance Shares*. Performance Shares shall be earned to the extent that their terms and conditions are met, as certified by the Committee. The form and timing of payment for Performance Shares earned shall be determined by the Committee and specified in the Award Agreement; however, in no event shall the payment for Performance Shares earned be made on a date that is later than 60 days after the vesting of such Performance Shares.

(d) *Termination of Employment*. The Committee, in its sole discretion, may (i) permit a Participant who ceases to be an Eligible Person before the end of any Performance Period, or the personal representative of a deceased Participant, to continue to be subject to a Performance Award relative to the current Performance Period until such Awards are forfeited or earned pursuant to their terms and conditions or (ii) authorize the payment to such Participant, or the personal representative of a deceased Participant, of the Performance Shares which would have been paid to the Participant had the Participant remained an Eligible Person to the end of the Performance Period. In the absence of such permission by the Committee, any unvested Performance Shares shall be forfeited when a Participant ceases to be an Eligible Person.

7. OTHER STOCK AWARDS

Section 7.1 *Grant of Other Stock Awards*. The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, specify the terms and provisions of other forms of equity-based or equity-related awards not described above which the Committee determines to be consistent with the purpose of the Plan and the interests of the Company, which awards may provide for cash payments based in whole or in part on the value or future value of Common Stock, for the acquisition or future acquisition of Common Stock, or any combination thereof. Each Other Stock Award shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 7.2.

Section 7.2 *Minimum Vesting Condition*. Other Stock Awards subject to performance criteria shall not vest in less than one year and Other Stock Awards which are subject to time vesting shall not vest in less than three years.

8. CASH AWARDS

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant to an Eligible Person a Cash Award (including without limitation, discretionary Awards, Awards based on objective performance criteria or Awards based on subjective performance criteria). Cash Awards shall be awarded in such amount and at such times during the term of the Plan as the Committee shall determine, provided however that the total amount of all Cash Awards made under the Plan, in the aggregate, will not exceed $10 million. Each Cash Award shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve.

9. FUNDAMENTAL TRANSACTION; CHANGE OF CONTROL

Section 9.1 *Fundamental Transaction*. If the Company merges with another entity in a transaction in which the Company is not the surviving entity or if, as a result of a merger, other business combination or any other transaction or event, other securities are substituted for the Common Stock or the Common Stock may no longer be issued (each, a “Fundamental Transaction”), then notwithstanding any other provisions of the Plan, (i) all outstanding Options and SARs shall be fully exercisable and any unexercised Options and SARs shall terminate upon the closing of the Fundamental Transaction, (ii) restrictions on outstanding Restricted Stock, Other Stock Awards and Cash Awards shall lapse; and (iii) each outstanding Performance Award shall be deemed to have achieved a level of performance that would cause all of the Performance Shares to become payable.

Section 9.2 *Change of Control*. Notwithstanding any other provisions of the Plan to the contrary, upon the occurrence of a Change of Control, (i) all outstanding Options and SARs shall be fully exercisable and any unexercised Options and SARs shall terminate upon the closing of the Change of Control, (ii) restrictions on outstanding Restricted Stock, Other Stock Awards and Cash Awards shall lapse; and (iii) each outstanding Performance Award shall be deemed to have achieved a level of performance that would cause all of the Performance Shares to become payable.

10. GENERAL

Section 10.1 *Amendment or Termination of Plan*. The Board may suspend or terminate the Plan at any time. In addition, the Board may, from time to time, amend the Plan in any manner, but may not adopt any amendment without Shareholder Approval if (i) such approval is necessary or desirable to qualify or comply with any tax or regulatory requirement for which or with which the Board deems it necessary or desirable to qualify or comply, or (ii) in the opinion of counsel to the Company, Shareholder Approval is required by any federal or state laws or regulations or the rules of any stock exchange on which the common stock may be listed.

Section 10.2 *Acceleration of Awards on Disability, Death, Retirement or Involuntary Termination*. With respect to (i) a Participant who ceases to be an Eligible Person due to a Disability, (ii) the personal representative of a deceased Participant, or (iii) any other Participant who ceases to be an Eligible Person due to the Participant’s retirement or involuntary termination (as defined by the Committee), the Committee, in its sole discretion, may permit the purchase of all or any part of the shares subject to any unvested Option or waive the vesting requirements of any Award on the date the Participant ceases to be an Eligible Person due to a Disability, death, retirement or involuntary termination. With respect to Options which have already vested at such date or the vesting of which is accelerated by the Committee in accordance with the foregoing provision, the Participant or the personal representative of a deceased Participant shall have the right to exercise such vested Options within such period(s) as the Committee shall determine. The purchase of all or any part of the shares subject to any unvested Option or the waiver the vesting requirements of any Award on the date the Participant ceases to be an Eligible Person due to an involuntary termination pursuant to this Section 10.2 will be limited to 5% of the aggregate number of shares of Common Stock which are available for Awards under the Plan pursuant to Section 3.3 of the Plan.

Withholding Taxes. A Participant must pay in cash to the Company the amount of taxes required to be withheld by law upon the exercise of an Option. Required withholding taxes associated with Restricted Stock, Performance Shares, Cash or Other Stock Awards must also be paid in cash unless the Committee requires a Participant to pay the amount of taxes required by law to be withheld from such Awards by directing the Company to withhold from any Award the number of shares of Common Stock having a Fair Market Value on the date of vesting equal to the amount of required withholding taxes.

Section 10.3 *Code Section 83(b) Elections*. The Company, its Subsidiaries and Affiliated Entities have no responsibility for a Participant's election, attempt to elect or failure to elect to include the value of an Award subject to Section 83 in the Participant's gross income for the year of grant pursuant to Section 83(b) of the Code. Any Participant who makes an election pursuant to Section 83(b) will promptly provide the Committee with a copy of the election form.

Section 10.4 *Code Section 162(m)*. It is the intent of the Company that the Plan comply in all respects with Section 162(m) of the Code and that any ambiguities or inconsistencies in construction of the Plan be interpreted to give effect to such intention.

Section 10.5 *Code Section 409A*. It is the intent of the Company that no Award under the Plan be subject to Section 409A of the Code. The Committee shall design and administer the Awards under the Plan so that they are not subject to Section 409A of the Code.

Section 10.6 *Certain Additional Payments by the Company*. The Committee may, in its sole discretion, provide in any Award Agreement for certain payments by the Company in the event that acceleration of vesting of any Award under the Plan is subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (such excise tax, interest and penalties, collectively, the "Excise Tax"). An Award Agreement may provide that the Participant shall be entitled to receive a payment (a "Gross-Up Payment") in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax imposed upon the Gross-Up Payment, the Participant retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such acceleration of vesting of any Award.

Section 10.7 *Non-Transferability.* Subject to other provisions of the Plan and any applicable Award Agreement, Awards are not transferable other than by will or the laws of descent and distribution. Any attempted sale, transfer, assignment, pledge, hypothecation or other disposition of, or the levy of execution, attachment or similar process upon, any Award contrary to the provisions hereof shall be void and ineffective, shall give no right to any purported transferee, any may, at the sole discretion of the Committee, result in forfeiture of the Award involved in such attempt. The Committee shall impose such other restrictions and conditions on any shares of Common Stock covered by an Award as it may deem advisable including, without limitation, restrictions under applicable Federal or state securities laws, and may legend the certificates representing the shares of Common Stock subject to the Award to give appropriate notice of such restrictions. Notwithstanding the foregoing, an Award held by a Non-Employee Director may be transferable under certain circumstances as specified by the Committee in the Award Agreement.

Section 10.8 *Non-Uniform Determinations.* The Committee's determinations under the Plan, including without limitation, (i) the determination of the Eligible Persons to receive Awards, (ii) the form, amount and timing of such Awards, (iii) the terms and provisions of such Awards, (iv) minimum employment or service periods, and (v) agreements evidencing the same, need not be uniform and, subject to any restrictions set forth in the Plan, may be made by the Committee selectively among Participants who receive, or who are eligible to receive, Awards under the Plan, whether or not such Participants are similarly situated.

Section 10.9 *Leaves of Absence, Suspensions.* The Committee shall be entitled to make such rules, regulations and determinations as it deems appropriate under the Plan in respect of any suspension of employment or leave of absence from the Company granted to a Participant whether such suspension or leave is paid or unpaid and whether due to a Disability or otherwise. Without limiting the generality of the foregoing, the Committee shall be entitled to determine (i) whether or not any such suspension or leave of absence shall be treated as if the Participant ceased to be an employee of the Company and (ii) the impact, if any, of any such suspension or leave of absence on Awards under the Plan.

Section 10.10 *Participant Misconduct.* Notwithstanding anything in the Plan to the contrary, the Committee shall have the authority under the Plan to determine that in the event of serious misconduct by the Participant (including violations of employment agreements, confidentiality or other proprietary matters) or any activity of a Participant in competition with the business of the Company or any Subsidiary or Affiliated Entity, any outstanding Award granted to such Participant may be cancelled, in whole or in part, whether or not vested. The determination of whether a Participant has engaged in a serious breach of conduct or any activity in competition with the business of the Company or any Subsidiary or Affiliated Entity shall be determined by the Committee in good faith and in its sole discretion. This Section 10.11 shall have no effect and be deleted from the Plan following a Change of Control.

Section 10.11 *Regulatory Approval and Listings.* The Company shall use its best efforts to file with the Securities and Exchange Commission as soon as practicable following the date this Plan is effective, and keep continuously effective and usable, a Registration Statement on Form S-8 with respect to shares of Common Stock subject to Awards hereunder. Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates representing shares of Common Stock evidencing Awards prior to:

(a) the obtaining of any approval from, or satisfaction of any waiting period or other condition imposed by, any governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable;

(b) the listing of such shares on any exchange on which the Common Stock may be listed; and

(c) the completion of any registration or other qualification of such shares under any state or federal law or regulation of any governmental body which the Committee shall, in its sole discretion, determine to be necessary or advisable.

Section 10.12 *Right to Continued Employment or Board Membership*. Participation in the Plan shall not give any Participant any right to remain in the employ of the Company, a Subsidiary or an Affiliated Entity or any right to remain on the Board of the Company. Further, the adoption of this Plan shall not be deemed to give any Employee, Non-Employee Director or Consultant or any other individual any right to be granted an Award.

Section 10.13 *Other Compensation Programs.* The existence and terms of the Plan shall not limit the authority of the Board in compensating Employees and Non-Employee Directors in such other forms and amounts, including compensation pursuant to any other plans as may be currently in effect or adopted in the future, as it may determine from time to time.

Section 10.14 *Reliance on Reports*. Each member of the Committee and each member of the Board shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company and its Subsidiaries and upon any other information furnished in connection with the Plan by any person or persons other than the Committee or Board member. In no event shall any person who is or shall have been a member of the Committee or the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information, including the furnishing of information, or failure to act, if in good faith.

Section 10.15 *Construction*. The titles and headings of the sections in the Plan are for the convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

Section 10.16 *Governing Law, Severability*. The Plan shall be governed by and construed in accordance with the laws of the State of Oklahoma except as superseded by applicable federal law. If any provision of the Plan is held unlawful or otherwise invalid or unenforceable in whole or in part, the unlawfulness, invalidity or unenforceability will not affect any other parts of the Plan, which will remain in full force and effect.

Section 10.17 *Supersession*. Upon receipt of Shareholder Approval pursuant to Section 1.4, this Plan supersedes and replaces in all respects the Initial Plan and any Award Agreement issued pursuant to the Plan after the effective date of this Plan will be governed by the terms of this Plan and not by the Initial Plan or any other plans or agreements, oral or otherwise.

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AGREEMENT is made effective [Effective Date], between CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), and [Executive Name], an individual (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company previously retained the services of the Executive under the Employment Agreement dated effective [Effective Date Prior Agreement], (the "Prior Agreement").

WHEREAS, the Board of Directors has determined that it is in the best interests of the Company to renew the Executive's employment arrangement and to maximize the Executive's incentive to remain as an employee and officer of the Company.

WHEREAS, as a result of the Executive's contribution to the Company and the Company's consummation of the joint venture transactions consummated by the Company during 2008 that increased the Company's intrinsic value by at least $10 billion, the Board of Directors has also determined that it is in the best interests of the Company to grant to the Executive an incentive award as provided herein.

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 Executive of the Company, and the Executive and the Company do not intend to create a joint venture, partnership or other relationship which might impose a fiduciary obligation 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 achieving the most profitable operation of the Company and the Company's affiliated entities consistent with developing and maintaining a quality business operation. The Executive shall also devote all of Executive's working time, attention and energies to the performance of Executive's duties and responsibilities under this Agreement.

2.1 Specific Duties. The Executive will serve as [Executive Title] for the Company, and in such positions as are mutually agreed upon by the parties. The Executive shall perform all of the duties required to fully and faithfully execute the office and position to which the Executive is appointed, and such other duties as may be reasonably requested by the Executive's supervisor. During the term of this

Agreement, the Executive may be nominated for election or appointed to serve as a director or officer of any of the Company's affiliated entities as determined in such affiliates' Board of Directors' sole discretion. The services of the Executive will be requested and directed by the Chief Executive Officer, Mr. Aubrey K. McClendon.

2.2 Rules and Regulations. The Company has issued various policies and procedures applicable to employees and the Executive including an Employment Policies Manual which sets forth the general human resources policies of the Company and addresses frequently asked questions regarding the Company. The Executive agrees to comply with such policies and procedures except to the extent inconsistent with this Agreement. Such policies and procedures may be changed or adopted in the sole discretion of the Company without advance notice.

2.3 Stock Investment. The Executive acknowledges that the Executive is expected to own not less than ten thousand (10,000) shares of the Company's common stock at all times after [Effective Date] and prior to termination of the Agreement. In the event the Executive's stock investment is less than 10,000 shares, the Executive will have a grace period of at least ninety (90) days to restore the Executive's stock investment to the guideline amount. The Compensation Committee of the Board of Directors (the "Compensation Committee") may, in its discretion, extend the grace period for complying with the Executive's stock investment guideline. 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 and has made no representations or warranties regarding the Company's stock, operations or financial condition.

3. Other Activities. Except as provided in this Agreement or approved by the Compensation Committee, or its designee, as applicable, in writing, the Executive agrees not to: (a) engage in other business activities independent of the Company; (b) serve as a general partner, officer, executive, director or member of any corporation, partnership, company or firm; or (c) directly or indirectly invest, participate or engage in the Oil and Gas Business. For purposes of this Agreement the term "Oil and Gas Business" means: (i) producing oil and gas; (ii) drilling, owning or operating an interest in oil and gas leases or wells; (iii) providing material or services to the Oil and Gas Business; (iv) refining, processing or marketing oil or gas; or (v) owning an interest in or assisting any corporation, partnership, company, entity or person in any of the foregoing. The foregoing will not prohibit: (v) ownership of publicly traded securities; (w) ownership of royalty interests where the Executive owns or previously owned the surface of the land covered in whole or in part by the royalty interest and the ownership of the royalty interest is incidental to the ownership of such surface estate; (x) ownership of royalty interests, overriding royalty interests, working interests or other interests in oil and gas owned prior to the Executive's date of first employment with the company and disclosed to the Company in writing; (y) ownership of royalty interests, overriding royalty interests, working interests or other interests in oil and gas acquired by the Executive through a bona fide gift or inheritance subject to disclosure by Executive to the Company in writing; or (z) service as an officer or director of a not-for-profit organization. If the Executive serves as a director or officer of a not-for-profit organization, the Executive shall disclose the name of the organization and their involvement in an annual disclosure statement, the form of which shall be provided by the Company.

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

4.1 Base Salary. A base salary (the "Base Salary"), at the initial annual rate of not less than [Base Salary] Dollars ($XXX,000.00) will be paid to the Executive in regular installments in accordance with the Company's designated payroll schedule.

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. Any bonus compensation is subject to the requirement that the Executive be employed on the bonus payment date selected by the Company, and will be at the absolute discretion of the Company in such amounts and at such times as the Board of Directors of the Company may determine.

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 Chesapeake Energy Corporation restricted stock or other awards from the Company's various equity compensation plans, subject to the terms and conditions thereof.

4.4 Benefits. The Company will provide the Executive such retirement benefits, reimbursement of reasonable expenditures for dues, travel and entertainment and such other benefits as are customarily provided to similarly situated executives of the Company and as are set forth in and governed by the Company's Employment Policies Manual. 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 make such coverage available to the Executive on the same terms as is customarily provided by the Company to the plan participants as modified from time to time. The Executive is subject to all of the terms and provisions of the Company's benefit plans or policies. The following specific benefits will also be provided to the Executive at the expense of the Company:

4.4.1 Vacation. The Executive will be entitled to take four (4) weeks of paid vacation, calculated from the Executive's anniversary date, during the term of this Agreement. No additional compensation will be paid for failure to take vacation.

4.4.2 Membership Dues. The Company will reimburse the Executive for: (a) the monthly dues necessary to maintain a full membership in a club in the Oklahoma City area selected by the Executive in an amount not to exceed Seven Hundred Fifty Dollars ($750.00) per month; and (b) the reasonable cost of any approved business entertainment at such club. Such reimbursement shall be made within thirty (30) days of the date such costs are incurred and submitted for reimbursement. All other costs, including, without implied limitation, any initiation costs, initial membership costs, personal use and business entertainment unrelated to the Company will be the sole obligation of the Executive and the Company will have no liability with respect to such amounts.

4.5 Change of Control Payment. If, during the term of this Agreement, there is a Change of Control (as hereafter defined) the Executive will be entitled to a lump sum payment (the "Change of Control Payment") within thirty (30) days of the effective date of the Change of Control (in addition to any other amounts payable to the Executive under this Agreement or otherwise including the acceleration of the 2008 Incentive Award Payments under paragraph 4.6 of this Agreement) in an amount equal to two hundred percent (200%) of: (a) the Executive's then current Base Salary under paragraph 4.1 of this Agreement and (b) the actual bonuses paid to the Executive during the twelve (12) calendar months preceding the Change of Control under paragraph 4.2 of this Agreement or its predecessor. Additionally, upon the occurrence of such a Change of Control all Equity Compensation granted to the Executive under Section 4.3 of this Agreement will be immediately vested and the remaining unpaid installments of the 2008 Incentive Award under paragraph 4.6 of this Agreement will be paid in a lump sum contemporaneously with the Change of Control Payment. 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 thirty percent (30%) or more of either (i) the then outstanding shares of the Company's common stock (the "Outstanding CHK 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 CHK Voting Securities"). For purposes of this paragraph, 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 or sponsored by Mr. Aubrey K. McClendon; (iv) any acquisition by any Executive benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (v) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of paragraph (c) below;

(b) the individuals who, as of June 12, 2009, 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 CHK Common Stock and Outstanding CHK Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than sixty percent (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 CHK Common Stock and Outstanding CHK Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any Executive benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, thirty percent (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 Incumbent Board, providing for such Business Combination; or,

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

4.6 <u>2008 Incentive Award</u>. In addition to any bonus compensation under paragraph 4.2 of this Agreement, the Company hereby grants to the Executive an incentive award in the amount of [Incentive Award] Dollars ($X,XXX,XXX.00) (the "2008 Incentive Award") to be paid in four (4) equal annual installments. The first installment of the 2008 Incentive Award will be paid no later than September 30, 2009 and the remaining installments of the 2008 Incentive Award will be paid on

September 30, 2010, September 30, 2011 and September 30, 2012. Except as expressly provided herein or approved by the Board of Directors, the payment of each installment of the 2008 Incentive Award is conditioned on the continued employment of the Executive by the Company or an affiliate of the Company on the scheduled date of payment of such installment. The remaining unpaid installments of the 2008 Incentive Award will be accelerated and payable in a lump sum: (a) on a Change of Control in accordance with paragraph 4.5 of this Agreement; (b) as provided in paragraphs 6.1.1, 6.2, 6.4 and 6.5 of this Agreement. The amounts payable under this paragraph will be excluded from all other wage and benefit computations including, without implied limitation, the base used to compute 401(k) benefits, deferred compensation benefits, change of control payments and severance compensation.

5. Term. The employment relationship evidenced by this Agreement is an "at will" employment relationship and the Company reserves the right to terminate the Executive at any time with or without cause as provided herein. In the absence of such termination, this Agreement will commence on [Effective Date] and end on [Expiration Date] (the "Expiration Date").

6. Termination. This Agreement will continue in effect until the expiration of the term stated 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 the service of written notice of termination to the Executive specifying an effective date of such termination not sooner than thirty (30) business days after the date of such notice (the "Termination Date"). In the event of elimination of the Executive's job position or reduction in duties and/or reassignment of the Executive to a new position of less authority or reduction in Base Salary (collectively referred to as the "Good Reason Conditions") the Executive may terminate this Agreement if the Executive provides notice to the Company within ninety (90) days of the initial existence of the Good Reason Condition and a thirty (30) day period for the Company to cure the Good Reason Condition. If the Company fails to cure the Good Reason Condition within the thirty (30) day cure period, the Executive may terminate this Agreement and it will be deemed to be a termination without Cause. In the event the Executive is terminated without Cause, the Executive will receive as termination compensation within thirty (30) days of the Termination Date: (a) fifty-two (52) weeks of Base Salary in a lump sum payment; (b) all Equity Compensation granted to Executive under Section 4.3 of this Agreement and any Supplemental Matching Contributions to the Chesapeake Energy Corporation Amended and Restated Deferred Compensation Plan (the "401(k) Make-Up Plan") shall be immediately vested; (c) the remaining unpaid portion of the 2008 Incentive Award under paragraph 4.6 of this Agreement in a lump sum payment; and (d) payment of any vacation pay accrued through the Termination Date. The right to the foregoing termination compensation under clauses (a), (b) and (c) above is subject to the Executive's execution of the Company's severance agreement which will operate as a release of all legally waivable claims against the Company and the Executive's compliance with all of the provisions of this Agreement, including all post-employment obligations.

6.1.2 Termination for Cause. The Company may terminate the employment of the Executive hereunder at any time for Cause (as hereinafter defined) (such a termination being referred to in this Agreement as a "Termination For Cause") by giving the Executive written notice of such termination, which shall take effect immediately upon the giving of such notice to the Executive. As used in this Agreement, "Cause" means (a) the Executive's breach or threatened breach of this Agreement; (b) the Executive's neglect of duties or failure to act, other than by reason of disability or death; (c) the misappropriation, fraudulent conduct, or acts of workplace dishonesty by the Executive with respect to the assets or operations of the Company or any of its subsidiaries or affiliated companies; (d) the Executive's failure to comply with directives from superiors or written company policies; (e) the Executive's personal misconduct which injures the Company and/or reflects poorly on the Company's reputation; (f) the Executive's failure to perform Executive's duties; or (g) the conviction of the Executive for, or a plea of guilty or no contest to, a felony or any crime involving moral turpitude. In the event this Agreement is terminated for Cause, the Company will not have any obligation to provide any further payments or benefits to the Executive after the Termination Date other than any vacation pay accrued through the Termination Date.

6.2 Termination by Executive. The Executive may voluntarily terminate this Agreement with or without cause by the service of written notice of such termination to the Company specifying a Termination Date no sooner than thirty (30) days after the date of such notice. The Company reserves the right to end the employment relationship at any time after the notice date and to pay Executive through the notice date. If this Agreement is terminated by the Executive in accordance with this paragraph: (a) the obligations of the parties will be controlled by paragraphs 6.3 and 6.6 of this Agreement; and (b) if the termination is based in whole, or in part, on the breach by the Company of a material provision of this Agreement or another material obligation of the Company in favor of the Executive and the breach is not cured after thirty (30) days written notice and the Executive has not exercised the termination rights under paragraph 6.1.1 of this Agreement, in addition to any other amounts the Executive will be entitled to a lump sum payment of the remaining unpaid installments of the 2008 Incentive Award under paragraph 4.6 of this Agreement.

6.3 Retirement by Executive. In the event the Executive is fifty- five (55) years or older and terminates this Agreement under paragraph 6.2 of this Agreement, the Executive will be (a) eligible for accelerated vesting of the unvested Equity Compensation awarded by the Company with the exception of any Equity Compensation issued to the Executive under the 2006 Long Term Stock Incentive Program award; and (b) eligible for accelerated vesting of the unvested Supplemental Matching Contributions to the 401(k) Make-Up Plan. The accelerated vesting under clauses (a) and (b) of this paragraph will be in accordance with the retirement matrix (the "Retirement Matrix") attached to this Agreement.

6.4 Incapacity of Executive. If the Executive suffers from a physical or mental condition which in the reasonable judgment of the Company's management prevents the Executive in whole or in part from performing the duties specified herein for a period of three (3) consecutive months, the Executive may be terminated. Although the termination may be deemed as a termination for Cause, the Executive will be entitled to receive within thirty (30) days of the Date of Termination: (a) a payment of twenty-six (26) weeks of Base Salary in a lump sum; (b) all Equity Compensation granted to the Executive under Section 4.3 of this Agreement and any Supplemental Matching Contributions to the 401(k) Make-Up Plan shall be immediately vested; (c) a lump sum payment of the remaining unpaid installments of the 2008 Incentive Award under paragraph 4.6 of this Agreement; and (d) payment of any vacation pay accrued through the Termination Date. Notwithstanding the foregoing, the amount payable under clause (a) above will be reduced by any benefits payable under any disability plans provided by the Company. The right to the foregoing compensation due under clauses (a), (b) and (c) above is subject to the execution by the Executive or the Executive's legal representative of the Company's severance agreement which will operate as a release of all legally waivable claims against the Company. In applying this section, the Company will comply with any applicable legal requirements, including the Americans with Disabilities Act.

6.5 Death of Executive. If the Executive dies during the term of this Agreement, the Company may thereafter terminate this Agreement without compensation except the Company will: (a) pay fifty-two (52) weeks of Base Salary in a single lump sum payment within ninety (90) days of the date of the Executive's death; (b) immediately vest all Equity Compensation granted to the Executive under Section 4.3 of this Agreement and any Supplemental Matching Contributions to the 401(k) Make-Up Plan; (c) pay in a lump sum the remaining unpaid portion of the 2008 Incentive Award under paragraph 4.6 of this Agreement within 90 days of the date of the Executive's death; and (d) pay any vacation pay accrued through the Termination Date. Amounts payable under this Section 6.5 shall be paid to the beneficiary designated on the Company's universal beneficiary designation form in effect on the date of the Executive's death. If the Executive fails to designate a beneficiary or if such designation is ineffective, in whole or in part, any payment that would otherwise have been paid under this Section 6.5 shall be paid to the Executive's estate. The right to the foregoing compensation due under clauses (a), (b) and (c) above is subject to the execution by the beneficiary, or as applicable, the administrator of the Executive's estate of the Company's severance agreement which will operate as a release of all legally waivable claims against the Company.

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 from and after the Termination Date, provided that the Executive will maintain the confidentiality of all information acquired by the Executive during the term of Executive's employment in accordance with paragraph 7 of this Agreement and the Executive shall comply with all other post employment requirements including paragraphs 7, 8, 9, 10, 11, 12, 13 and 14. Except as otherwise provided in paragraphs 4.5, 4.6 and 6 of this Agreement and payment of any vacation pay accrued through the Termination Date, 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. All keys, entry cards, credit cards, files, records, financial information, furniture, furnishings, equipment, supplies and other items relating to the Company in the Executive's possession will remain the property of the Company. The Executive will have the right to retain and remove all personal property and effects which are owned by the Executive and located in the offices of the Company at a time determined by the Company. All such personal items will be removed from such offices no later than two (2) days after the Termination Date, 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 Termination Date, the Executive will render such services to the Company as might be reasonably required to provide for the orderly termination of the Executive's employment. Notwithstanding the foregoing and without discharging any obligations to pay compensation to the Executive under this Agreement, after notice of the Termination, the Company may request that the Executive not provide any other services to the Company and not enter the Company's premises before or after the Termination Date. In the event that the Executive separates employment with the Company, Executive hereby grants consent to notification by the Company to Executive's new employer about Executive's rights and obligations under this Agreement. Upon such termination of employment, the Executive further agrees to acknowledge compliance with this Agreement in a form reasonably provided by the Company.

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 and/or is the foundation on which the business of the Company is predicated. The Executive also acknowledges that, during the course of employment, the Executive may have personal contact and conduct business with the customers, suppliers and accounts of the Employer. The Executive agrees not to disclose to any person other than authorized Executives of the Company 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 (a trade secret shall include any formula, pattern, device or compilation of information used by the Employer in its business); (b) provided, disclosed or delivered to Executive by the Company, any officer,

director, Executive, 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, Executives, borrowers or customers of the foregoing. The Executive acknowledges that Executive will obtain unique benefits from employment and the provisions contained in this Agreement are reasonably necessary to protect the Employer's legitimate business interests. On request by the Company, the Company will be entitled to the return 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 three (3) years. 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, 9, 10 and 13 of this Agreement, the Company expressly includes any of the Company's affiliated corporations, partnerships or entities.

8. Non-Competition. For a period of six (6) months after the Executive is no longer employed by the Company for any reason, the Executive will not 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, mineral 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.

9. Non-Solicitation. The Executive agrees that during his/her employment hereunder, and for the one (1) year period immediately following the separation of employment for any reason, the Executive shall not solicit or contact any established client or customer of the Company with a view to inducing or encouraging such established client or customer to discontinue or curtail any business relationship with the Company. The Executive further agrees that the Executive will not request or advise any established clients, customers or suppliers of the Company to withdraw, curtail or cancel its business with the Company.

10. Non-Solicitation of Employees. The Executive covenants that during the term of employment and for the one (1) year period immediately following the separation of employment for any reason, Executive will neither directly nor indirectly induce nor attempt to induce any Executive or Employee of the Company to terminate his or her employment to go to work for any other Company.

11. Reasonableness. The Company and Executive have attempted to specify a reasonable period of time and reasonable restrictions to which this Agreement shall apply. The Company and Executive agree that if a court or administrative body should subsequently determine that the terms of this Agreement are greater than reasonably necessary to protect the Company's interest, the Company agrees to waive those terms which are found by a court or administrative body to be greater than reasonably necessary to protect the Company's interest and to request that the court or administrative body reform this Agreement specifying a reasonable period of time and such other reasonable restrictions as the court or administrative body deems necessary.

12. Equitable Relief. The Executive acknowledges that the services to be rendered by Executive are of a special, unique, unusual, extraordinary, and intellectual character, which gives them a peculiar value, and the loss of which cannot reasonably or adequately be compensated in damages in an action at law; and that a breach by the Executive of any of the provisions contained in this Agreement will cause the Company irreparable injury and damage. The Executive further acknowledges that the Executive possesses unique skills, knowledge and ability and that any material breach of the provisions of this Agreement would be extremely detrimental to the Company. By reason thereof, the Executive agrees that the Company shall be entitled, in addition to any other remedies it may have under this Agreement or otherwise, to injunctive and other equitable relief to prevent or curtail any breach of this Agreement by him/her.

13. Proprietary Matters. The Executive expressly understands and agrees that any and all improvements, inventions, discoveries, processes, know-how or intellectual property 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) shall 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 its affiliates. The foregoing will not prohibit any activities which are expressly permitted by the last sentence of paragraph 3 of this Agreement during the term of this Agreement.

14. Arbitration. Any disputes, claims or controversy’s between the Employer and Executive including, but not limited to those arising out of or related to this Agreement or out of the parties’ employment relationship, shall be settled by arbitration as provided herein. This agreement shall survive the termination or rescission of this Agreement. All arbitration shall be in accordance with Rules of the American Arbitration Association, including discovery, and shall be undertaken pursuant to the Federal Arbitration Act. Arbitration will be held in Oklahoma City, Oklahoma unless the parties mutually agree to another location. The

decision of the arbitrator will be enforceable in any court of competent jurisdiction. The parties, however, agree that the Employer shall be entitled to obtain injunctive or other equitable relief to enforce the provisions of this Agreement in a court of competent jurisdiction. The parties further agree that this arbitration provision is not only applicable to the Company but its affiliates, officers, directors, employees and related parties.

15. Miscellaneous. The parties further agree as follows:

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

15.2 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: Aubrey K. McClendon
To the Executive:	[Executive Name] [Address] [City, State Zip]

15.3 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; provided, however, the Company may assign this Agreement to any wholly owned affiliate or subsidiary of Chesapeake Energy Corporation without Executive's consent as well as to any purchaser of the Company.

15.4 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. Except as provided for in paragraph 14, this Agreement is intended to be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma.

15.5 Entire Agreement. This Agreement, any documents executed in connection with this Agreement, any documents specifically referred to in this Agreement and the Employment Policies Manual constitute 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.

15.6 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, and the Executive waives the consent requirement of paragraph 15.3 to effect such assumption.

15.7 Supersession. This Agreement supersedes and replaces 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 will be bound by the terms of this Agreement, any documents executed in connection with this Agreement, any documents specifically referred to in this Agreement and the Employment Policies Manual. In the event of a conflict between the Employment Policies Manual and this Agreement, this Agreement will control in all respects.

15.8 Third-Party Beneficiary. The Company's affiliated entities and partnerships are beneficiaries of all terms and provisions of this Agreement and entitled to all rights hereunder.

15.9 Section 409A. This Agreement is intended to comply with Internal Revenue Code Section 409A and related U.S. Treasury regulations or pronouncements ("Section 409A") and any ambiguous provision will be construed in a manner that is compliant with or exempt from the application of Section 409A. Notwithstanding any provision to the contrary in this Agreement, if Executive is deemed on his Termination Date to be a "specified employee" within the meaning of that term under Section 409A(a)(2)(B) of the Internal Revenue Code, then the payments and benefits under this Agreement that are subject to Section 409A and paid by reason of a termination of employment shall be made or provided (subject to the last sentence hereof) on the later of (a) the payment date set forth in this Agreement or (b) the date that is the earliest of (i) the expiration of the six-month period measured from the date of the Executive's Termination of employment or (ii) the date of the Executive's death (the "Delay Period"). Payments subject to the Delay Period shall be paid to the Executive without interest for such delay in payment.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective the date first above written.

CHESAPEAKE ENERGY CORPORATION, an
Oklahoma corporation.

By: ______________________________
Aubrey K. McClendon, Chief Executive Officer
(the "Company")

By: ______________________________
[Executive Name], Individually
(the "Executive")

RETIREMENT MATRIX

Sr. Vice President				
Service Yrs	**<55**	**55-59**	**60-64**	**>= 65**
0 - 5	0%	0%	0%	0%
5 - 10	0%	60%	80%	100%
10 - 15	0%	80%	100%	100%
15 +	0%	100%	100%	100%

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	Nine Months Ended September 30, 2009
EARNINGS:						
Income (loss) before income taxes and Cumulative effect of accounting change	$ 805	$ 1,492	$ 3,241	$ 2,347	$ 991	$ (8,490)
Interest expense (a)	162	223	318	375	225	191
(Gain)/loss on investment in equity investees in excess of distributed earnings	(1)	1	(3)	21	40	32
Amortization of capitalized interest	5	10	19	40	74	105
Loan cost amortization	6	9	13	16	19	19
Earnings	$ 977	$ 1,735	$ 3,588	$ 2,799	$ 1,349	$ (8,143)
FIXED CHARGES:						
Interest expense	$ 162	$ 223	$ 318	$ 375	$ 225	$ 191
Capitalized interest	36	79	179	311	586	464
Loan cost amortization	6	9	13	16	19	19
Fixed Charges	$ 204	$ 311	$ 510	$ 702	$ 830	$ 674
Preferred Stock Dividends						
Preferred Dividend Requirements	$ 40	$ 42	$ 89	$ 94	$ 33	$ 18
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	$ 29
Combined Fixed Charges and Preferred Dividends	$ 266	$ 377	$ 655	$ 854	$ 884	$ 703
Ratio of Earnings to Fixed Charges	4.8	5.6	7.0	4.0	1.6	(12.1)
Insufficient coverage	$ —	$ —	$ —	$ —	$ —	$ 8,817
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	3.7	4.6	5.5	3.3	1.5	(11.6)
Insufficient coverage	$ —	$ —	$ —	$ —	$ —	$ 8,846

(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.

Exhibit 31.1

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: November 9, 2009

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

Exhibit 31.2

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: November 9, 2009

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

Exhibit 32.1

**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 September 30, 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: November 9, 2009

Exhibit 32.2

**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 September 30, 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: November 9, 2009