CHESAPEAKE ENERGY CORP
Form 424B2
June 29, 2006
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Filed pursuant to Rule 424(b)(2)
Registration No. 333-130196

Prospectus Supplement to Prospectus dated December 8, 2005

2,000,000 Shares

Chesapeake Energy Corporation

6.25% Mandatory Convertible Preferred Stock

We are offering 2,000,000 shares of our 6.25% mandatory convertible preferred stock by this prospectus supplement and the accompanying prospectus.

We will pay annual dividends on each share of our mandatory convertible preferred stock in the amount of $15.6250. Dividends will accrue and cumulate from the date of issuance and, to the extent that we are legally permitted to pay dividends and our board of directors declares a dividend payable, we will pay dividends in cash, common stock or a combination thereof, on March 15, June 15, September 15 and December 15 of each year prior to June 15, 2009, and on June 15, 2009. The first dividend payment will be made on September 15, 2006, in the amount of $3.25521 per share of our mandatory convertible preferred stock, which reflects the time period from the date of issuance to September 15, 2006.

Each share of our mandatory convertible preferred stock has a liquidation preference of $250.00, plus accrued, cumulated and unpaid dividends. Each share of our mandatory convertible preferred stock will automatically convert on June 15, 2009, into between 7.1715 and 8.6059 shares of common stock, subject to anti-dilution adjustments, depending on the average closing price per share of our common stock over the 20 trading day period ending on the third trading day prior to such date. At any time prior to June 15, 2009, holders may elect to convert each share of our mandatory convertible preferred stock into 7.1715 shares of common stock, subject to anti-dilution adjustments. If the closing price per share of our common stock exceeds $52.29 for at least 20 trading days within a period of 30 consecutive trading days, we may elect, subject to certain limitations, to cause the conversion of all, but not less than all, of the shares of mandatory convertible preferred stock then outstanding at the conversion rate of 7.1715 shares of common stock per share of our mandatory convertible preferred stock, provided that at the time of such conversion we are then legally permitted to and do pay an amount equal to any accrued, cumulated and unpaid dividends (other than dividends payable to previous record holders) plus the present value of all remaining future dividend payments to the mandatory conversion date.

Prior to this offering, there has been no public market for our mandatory convertible preferred stock. We intend to apply to list our mandatory convertible preferred stock on the New York Stock Exchange, subject to satisfaction of its minimum listing standards. Our common stock is listed on the New York Stock Exchange under the symbol CHK. On June 27, 2006, the last reported sale price of our common stock was $29.05 per share.

See Risk Factors beginning on page S-18 of this prospectus supplement to read about important factors you should consider before buying shares of our mandatory convertible preferred stock.

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

	Per Share	Total
Public Offering Price	$ 250.00	$ 500,000,000
Underwriting Discount	$ 7.50	$ 15,000,000
Proceeds to Chesapeake (before expenses)	$ 242.50	$ 485,000,000

We have granted the underwriters a 30-day option to purchase up to an additional 300,000 shares from us on the same terms and conditions as set forth above if the underwriters sell more than 2,000,000 shares of preferred stock in this offering.

The underwriters expect to deliver the preferred stock in book-entry form on or about June 30, 2006.

Joint Book-Running Managers

Goldman, Sachs & Co.

Banc of America Securities LLC

Credit Suisse

Lehman Brothers

UBS Investment Bank

Senior Co-Managers

Bear, Stearns & Co. Inc.
RBC Capital Markets
Citigroup
Morgan Stanley
Wachovia Securities

Co-Managers

Gilford Securities Incorporated
Johnson Rice & Company L.L.C.
Pritchard Capital Partners, LLC
Howard Weil Incorporated
Natexis Bleichroeder Inc.
Jefferies & Company, Inc.
Petrie Parkman & Co.
Simmons & Company International

Prospectus Supplement dated June 27, 2006.

PROSPECTUS SUPPLEMENT SUMMARY

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

Chesapeake

We are the second largest independent producer of natural gas in the United States, and we own interests in approximately 32,000 producing oil and natural gas wells that are currently producing approximately 1.6 bcfe per day, 92% of which is natural gas. Our strategy is focused on discovering, developing and acquiring onshore natural gas reserves in the U.S. east of the Rocky Mountains. Our most important operating area has historically been the Mid-Continent region, which includes Oklahoma, Arkansas, Kansas and the Texas Panhandle. At March 31, 2006, 49% of our proved oil and natural gas reserves were located in the Mid-Continent. During the past four years, we have also built significant positions in various conventional and unconventional plays in the South Texas and Texas Gulf Coast regions, the Permian Basin of West Texas and eastern New Mexico, the Barnett Shale area of North Texas, the Ark-La-Tex area of East Texas and northern Louisiana, the Appalachian Basin in West Virginia, eastern Kentucky, eastern Ohio and southern New York, the Caney and Woodford Shales in southeastern Oklahoma, the Fayetteville Shale in Arkansas and the Barnett and Woodford Shales in West Texas.

As of December 31, 2005, we had 7.5 tcfe of proved reserves, of which 92% were natural gas and all of which were onshore. During 2005, we produced an average of 1.3 bcfe per day, a 30% increase over the 1.0 bcfe per day produced in 2004. For 2005, we generated net income available to common shareholders of $880 million, or $2.51 per fully diluted common share, which was a 64% increase over the prior year.

During the first quarter of 2006, we led the nation in drilling activity with an average utilization of 77 operated rigs and 75 non-operated rigs. Through this drilling activity, we drilled 262 (210 net) operated wells and participated in another 371 (45 net) wells operated by other companies. Our success rate was 97% for operated wells and 98% for non-operated wells. We replaced our 137 bcfe of production with an internally estimated 427 bcfe of new proved reserves for a reserve replacement rate of 312%. Reserve replacement through the drillbit was 184 bcfe, or 135% of production (including 76 bcfe of upward performance revisions and 88 bcfe of downward revisions resulting from oil and natural gas price declines between December 31, 2005 and March 31, 2006), and reserve replacement through acquisitions was 243 bcfe, or 177% of production. As a result, our proved reserves grew by 4% during the first quarter of 2006, from 7.5 tcfe to 7.8 tcfe. Of the 7.8 tcfe, 64% were proved developed reserves.

In the first quarter of 2006, we produced an average of 1.5 bcfe per day, a 31% increase over the 1.2 bcfe per day produced in the first quarter of 2005. During the first quarter of 2006, we generated net income available to common shareholders of $604 million, or $1.44 per fully diluted common share, which was a 300% increase over the first quarter of 2005. Also, in the first quarter we added approximately 700 new employees to support our growth, which increased our total employee base to

approximately 3,600 employees at March 31, 2006, and invested $200 million in leasehold (excluding leasehold acquired through acquisitions) and 3-D seismic data, all of which we consider the building blocks of future value creation.

From January 1, 1998 through March 31, 2006, we have been one of the most active consolidators of onshore U.S. natural gas assets, having purchased approximately 6.3 tcfe of proved reserves, at a total cost of approximately $12.2 billion (including $3.4 billion for unproved leasehold, but excluding $891 million of deferred taxes established in connection with certain corporate acquisitions). Excluding the amounts allocated to unproved leasehold and deferred taxes, our acquisition cost per proved mcfe was $1.40 over this time period. During 2006, we have been especially active in the acquisitions market. Acquisition expenditures totaled $1.9 billion (including $1.1 billion for unproved leasehold), pro forma for our pending acquisitions. Through these acquisitions, we will have acquired an internally estimated 404 bcfe of proved oil and natural gas reserves.

On June 5, 2006, we announced that we had entered into an agreement to acquire from Four Sevens Oil Co. Ltd. and its equal equity partner, Sinclair Oil Corporation (collectively referred to as Four Sevens/Sinclair), 39,000 net acres of Barnett Shale leasehold, 30 mmcf of current natural gas production and $55 million of midstream natural gas assets for $845 million in cash. We also announced that we acquired or agreed to acquire an additional 28,000 net acres of prospective Barnett Shale leasehold, primarily in Johnson and Tarrant Counties, Texas, from various additional sellers for $87 million. Please see Recent Developments Pending Acquisitions.

We intend to use the net proceeds from this offering, together with the net proceeds from our concurrent public offering of senior notes and our concurrent public offering of common stock, to fund the purchase price for our pending acquisitions discussed above, to pay related fees and expenses, to repay outstanding indebtedness under our revolving bank credit facility and for general corporate purposes. Please see Use of Proceeds. There is no assurance, however, that these acquisitions will close, or close without material adjustment, as scheduled. Neither this offering nor our concurrently announced proposed public offerings of senior notes and common stock are conditioned upon the closing of these acquisitions. Our pending acquisitions are not conditioned upon the closing of any of these offerings.

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

Business Strategy

Since our inception in 1989, Chesapeake s goal has been to create value for investors by building one of the largest onshore natural gas resource bases in the United States. For much of the past eight years, our strategy to accomplish this goal has been to build a dominant operating position in the Mid-Continent region, the third largest natural gas supply region in the U.S. In building our industry-leading position in the Mid-Continent, we have integrated an aggressive and technologically advanced drilling program with an active property consolidation program focused on small to medium-sized corporate and property acquisitions. In 2002, we began expanding our focus from the Mid-Continent to other regions where we believed we could extend our successful strategy. To date, those areas have included the South Texas and Texas Gulf Coast regions, the Permian Basin of West Texas and eastern New Mexico, the Barnett Shale area of North Texas, the Ark-La-Tex area of East Texas and northern Louisiana, the Appalachian Basin in West Virginia, eastern Kentucky, eastern Ohio and southern New York, the Caney and Woodford Shales in southeastern Oklahoma, the Fayetteville Shale

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in Arkansas and the Barnett and Woodford Shales in West Texas. We believe significant elements of our successful Mid-Continent strategy of acquisition, exploitation, extension and exploration have been or will be successfully transferred to these areas.

Key elements of this business strategy are further explained below:

Make High-Quality Acquisitions. Our acquisition program is focused on acquisitions of natural gas properties that offer high-quality, long-lived production and significant development and high potential deep drilling opportunities. From January 1, 1998 through March 31, 2006 and pro forma for our pending acquisitions, we have purchased approximately 6.3 tcfe of proved reserves, at a total cost of approximately $12.2 billion (including $3.4 billion for unproved leasehold, but excluding $891 million of deferred taxes established in connection with certain corporate acquisitions). Excluding the amounts allocated to unproved leasehold and deferred taxes, our acquisition cost per proved mcfe was $1.40 over this time period. The vast majority of these acquisitions either increased our ownership in existing wells or fields or added additional drilling locations in our focused operating areas. Because these operating areas contain many smaller companies seeking liquidity opportunities and larger companies seeking to divest non-core assets, we expect to continue to find additional attractive acquisition opportunities in the future.

Grow through the Drillbit. One of Chesapeake s most distinctive characteristics is our ability to increase reserves and production through the drillbit. We are currently utilizing 87 operated drilling rigs and 81 non-operated drilling rigs to conduct the most active drilling program in the United States. We focus both on finding significant new natural gas reserves and developing existing proved reserves, principally at deeper depths than the industry average. For the past seven years, we have been actively investing in leasehold, 3-D seismic information and human capital to be able to take advantage of the favorable drilling economics that exist today. While we believe U.S. natural gas production has declined during the past five years, we are one of the few large-cap companies that have been able to increase production, which we have successfully achieved for the past 16 consecutive years and 19 consecutive quarters. We believe key elements of the success and scale of our drilling programs have been our early recognition that natural gas prices were likely to move higher in the U.S. in the post-1999 period accompanied by our willingness to proactively hire new employees and to build the nation s largest onshore leasehold and 3-D seismic inventories, all of which are the building blocks of a successful large-scale drilling program.

Build Regional Scale. We believe one of the keys to success in the natural gas exploration industry is to build significant operating scale in a limited number of operating areas that share many similar geological and operational characteristics. Achieving such scale provides many benefits, the most important of which are higher per unit revenues, lower per unit operating costs, greater rates of drilling success, higher returns from more easily integrated acquisitions and higher returns on drilling investments. We first began pursuing this focused strategy in the Mid-Continent in late 1997 and we are now the largest natural gas producer, the most active driller and the most active acquirer of leasehold and producing properties in the Mid-Continent. We believe this region, which trails only the Gulf Coast and Rocky Mountain basins in U.S. natural gas production, has many attractive characteristics. These characteristics include long-lived natural gas properties with predictable decline curves; multi-pay geological targets that decrease drilling risk and have resulted in a drilling success rate of 94% over the past 16 years; generally lower service costs than in more competitive or more remote basins; and a favorable regulatory environment with virtually no federal land ownership. We believe our other operating areas possess many of these same favorable characteristics and our goal is to become or remain a top five natural gas producer in each of our operating areas.

Focus on Low Costs. By minimizing lease operating costs and general and administrative expense through focused activities and increased scale, we have been able to deliver attractive financial returns through all phases of the commodity price cycle. We believe our low cost structure is the result of management s effective cost-control programs, a high-quality asset base and extensive and competitive services, natural gas processing and transportation infrastructures that exist in our key operating areas. As of March 31, 2006, we operated approximately 18,800 wells, which accounted for approximately 80% of our daily production volume. This large percentage of operated properties provides us with a high degree of operating flexibility and cost control.

Improve our Balance Sheet. We have made significant progress in improving our balance sheet over the past seven years. From December 31, 1998 through March 31, 2006, we have increased our shareholders equity by $7.6 billion ($8.8 billion pro forma for this offering and our pending offering of common stock) through a combination of earnings and common and preferred equity issuances. As of March 31, 2006, our debt as a percentage of total capitalization (total capitalization is the sum of debt and stockholders equity) was 46%, compared to 137% as of December 31, 1998. On a pro forma basis for our pending public offerings of common stock and senior notes, our recently completed preferred stock exchanges and this offering, our debt to total capitalization ratio as of March 31, 2006, would be 43%. We plan to continue improving our balance sheet in the years ahead.

Based on our view that natural gas will be in a tight supply/demand relationship in the U.S. during at least the next few years because of the significant structural challenges to growing natural gas supply and the growing demand for this clean-burning, domestically-produced fuel, we believe our focused natural gas acquisition, exploitation and exploration strategy should provide substantial value-creating growth opportunities in the years ahead. Our goal is to increase our overall production by 10% to 20% per year, with growth at an annual rate of 7% to 10% generated organically through the drillbit and the remaining growth generated through acquisitions. We have reached or exceeded this overall production goal in 11 of our 13 years as a public company.

Company Strengths

We believe the following six characteristics distinguish our past performance and differentiate our future growth potential from other independent natural gas producers:

High-Quality Asset Base. Our producing properties are characterized by long-lived reserves, established production profiles and an emphasis on onshore natural gas. Based upon current production and proved reserve estimates, and including estimates for our pending acquisitions, our proved reserves-to-production ratio, or reserve life, is approximately 14 years. In addition, we believe we are the sixth largest producer of natural gas in the U.S. (second among independents) and the fourth largest owner of proved U.S. natural gas reserves (first among independents). In each of our operating areas, our properties are concentrated in locations that enable us to establish substantial economies of scale in drilling and production operations and facilitate the application of more effective reservoir management practices. We intend to continue building our asset base in each of our operating areas through a balance of acquisitions, exploitation and exploration.

Low-Cost Producer. Our high-quality asset base, the work ethic of our employees, our hands-on management style and our headquarters location in Oklahoma City have enabled us to achieve a low operating and administrative cost structure. During the first quarter of 2006, our operating costs per unit of production were $1.48 per mcfe, which consisted of general and administrative expenses of $0.21 per mcfe (including non-cash stock-based compensation of $0.05 per mcfe), production

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expenses of $0.87 per mcfe and production taxes of $0.40 per mcfe. We believe this is one of the lowest cost structures among publicly traded, large-cap independent oil and natural gas producers.

Successful Acquisition Program. Our experienced acquisition team focuses on enhancing and expanding our existing assets in each of our operating areas. These areas are characterized by long-lived natural gas reserves, low lifting costs, multiple geological targets, favorable basis differentials to benchmark commodity prices, well-developed oil and natural gas transportation infrastructures and considerable potential for further consolidation of assets. Since 1998 and including our pending acquisitions, we have acquired approximately 6.3 tcfe of proved reserves that replaced 317% of our total production. We believe we are well-positioned to continue making attractive acquisitions as a result of our extensive track record of identifying, completing and integrating multiple successful acquisitions, our large operating scale and our knowledge and experience in the regions in which we operate.

Large Inventory of Drilling Projects. During the 16 years since our inception, we have been among the five most active drillers of new wells in the United States. Presently we are the most active driller in the U.S. with 87 operated and 81 non-operated rigs drilling. Through this high level of activity over the years, we have developed an industry-leading expertise in drilling deep vertical and horizontal wells in search of large natural gas accumulations in challenging conventional and unconventional reservoirs. As a result of our successful acquisition program and active leasehold acquisition and seismic acquisition strategies, we have been able to accumulate a U.S. onshore leasehold position of approximately 9.3 million net acres, pro forma for our pending acquisitions, and have acquired rights to 12.3 million acres of onshore 3-D seismic data to provide informational advantages over our competitors and to help evaluate our large acreage inventory. On this very large acreage position, our technical teams believe approximately 31,000 exploratory and developmental drill sites exist, representing a backlog of more than ten years of future drilling opportunities at current drilling rates.

Hedging Program. We have used and intend to continue using hedging programs to reduce the risks inherent in acquiring and producing oil and natural gas reserves, commodities that are frequently characterized by significant price volatility. We believe this price volatility is likely to continue in the years ahead and that we can use this volatility to our benefit by taking advantage of prices when they reach levels that management believes are either unsustainable for the long-term or provide unusually high rates of return on our invested capital. We currently have natural gas hedges in place covering 88%, 69% and 55% of our anticipated natural gas production for the remainder of 2006 (including the second quarter of 2006) and all of 2007 and 2008 at average NYMEX prices of $9.08, $9.86 and $9.34 per mcf, respectively. In addition, we have 79%, 56% and 48% of our anticipated oil production hedged for the remainder of 2006 (including the second quarter of 2006) and all of 2007 and 2008 at average NYMEX prices of $63.24, $68.79 and $69.50 per barrel of oil, respectively. During the first quarter of 2006, we realized gains from our hedging program of approximately $248.2 million.

Entrepreneurial Management. Our management team formed the company in 1989 with an initial capitalization of $50,000 and fewer than ten employees. Since then, our management team has guided the company through various operational and industry challenges and extremes of oil and natural gas prices to create the second largest independent producer of natural gas in the U.S. with approximately 4,000 employees and an enterprise value of approximately $20.5 billion (pro forma for this offering and our pending offerings of senior notes and common stock). Our chief executive officer and co-founder, Aubrey K. McClendon, has been in the oil and natural gas industry for 25 years and beneficially owns, as of June 23, 2006, approximately 25 million shares of our common stock.

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Recent Developments

Pending Acquisitions. On June 5, 2006, we announced that we had entered into an agreement to acquire from Four Sevens/Sinclair, 39,000 net acres of Barnett Shale leasehold, 30 mmcf of current natural gas production and $55 million of mid-stream natural gas assets for $845 million in cash. Of the 39,000 net acres, 26,000 net acres are located in Johnson and Tarrant Counties, Texas, where we have identified 500 net potential drillsites, and 13,000 net acres are located in counties outside our core focus area where we have not yet identified any drilling opportunities that would produce returns as competitive as those in our core focus area. We also announced that we acquired or agreed to acquire an additional 28,000 net acres of prospective Barnett Shale leasehold, primarily in Johnson and Tarrant Counties, from various additional sellers for $87 million. On these 28,000 acres, we anticipate drilling as many as 400 net wells to develop these properties under current market conditions.

We have also recently agreed to invest approximately $450 million to acquire an additional 225,000 net acres of leasehold in the Delaware Basin shale plays of West Texas and to acquire a leading drilling contractor in the Appalachian Basin. We may use part of the proceeds from this offering and our concurrent public offerings together with borrowings under our revolving bank credit facility to finance such acquisitions, which we expect to close in July 2006.

There is no assurance that our pending acquisitions will close, close without material adjustment, or close as scheduled. Neither this offering nor either of our concurrently announced proposed offerings is conditioned upon the closing of these acquisitions. The pending acquisitions are not conditioned upon the closing of any of these offerings. We intend to finance these acquisitions with the net proceeds from this offering and our concurrent public offerings of senior notes and common stock. If one or more of the concurrent offerings are not consummated, we intend to finance these acquisitions with the net proceeds from this offering and borrowings under our revolving bank credit facility.

Pending Public Offerings. On June 27, 2006, we priced separate public offerings of $500 million of 7.625% Senior Notes due 2013 and 25,000,000 shares of our common stock at a price per share to the public of $29.05 (plus up to an additional 3,750,000 shares to cover the option of the underwriters to purchase additional shares). This prospectus supplement shall not be deemed an offer to sell or a solicitation of an offer to buy any of our senior notes or common stock. There is no assurance that our concurrent public offerings will be completed or, if completed, that they will be completed for the amounts contemplated. The completion of this offering is not conditioned on the completion of our pending acquisitions or the completion of our concurrent public offerings of senior notes or common stock.

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THE OFFERING

Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the underwriters option to purchase up to 300,000 additional shares of mandatory convertible preferred stock.

Issuer	Chesapeake Energy Corporation
Securities Offered	2,000,000 shares of 6.25% mandatory convertible preferred stock, which we refer to in this prospectus supplement as the mandatory convertible preferred stock. 2,300,000 shares if the underwriters exercise their option to purchase additional shares in full.
Initial Offering Price	$250.00 for each share of mandatory convertible preferred stock.
Option to Purchase Additional Shares of Mandatory Convertible Preferred Stock	To the extent the underwriters sell more than 2,000,000 shares of our mandatory convertible preferred stock, the underwriters have the option to purchase up to 300,000 additional shares of our mandatory convertible preferred stock from us at the initial offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus supplement.
Dividends	$15.6250 for each share of our mandatory convertible preferred stock per year. Dividends will accrue and cumulate from the date of issuance and, to the extent that we are legally permitted to pay dividends and our board of directors, or an authorized committee of our board of directors, declares a dividend payable, we will pay dividends in cash or in common stock on each dividend payment date. The dividend payable on the first dividend payment date is $3.25521 per share and on each subsequent dividend payment date will be $3.90625 per share. See Description of Mandatory Convertible Preferred Stock Dividends.
Dividend Payment Dates	March 15, June 15, September 15 and December 15 of each year (or the following business day if the 15th is not a business day) prior to the mandatory conversion date (as defined below), and on the mandatory conversion date, commencing on September 15, 2006.
Redemption	Our mandatory convertible preferred stock is not redeemable.
Mandatory Conversion Date	June 15, 2009.
Mandatory Conversion	On the mandatory conversion date, each share of our mandatory convertible preferred stock will automatically convert

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into shares of our common stock, based on the conversion rate as described below.

Holders of our mandatory convertible preferred stock on the mandatory conversion date will have the right to receive the dividend due on such date (including any accrued, cumulated and unpaid dividends on our mandatory convertible preferred stock as of the mandatory conversion date), whether or not declared (other than previously declared dividends on our mandatory convertible preferred stock payable to holders of record as of a prior date), to the extent we are legally permitted to pay such dividends at such time.

Conversion Rate

The conversion rate for each share of our mandatory convertible preferred stock will be not more than 8.6059 shares of common stock and not less than 7.1715 shares of common stock, depending on the applicable market value of our common stock, as described below.

The applicable market value of our common stock is the average of the closing prices per shares of common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the mandatory conversion date. It will be calculated as described under Description of Mandatory Convertible Preferred Stock Mandatory Conversion.

The conversion rate is subject to certain adjustments, as described under Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments.

The following table illustrates the conversion rate per share of our mandatory convertible preferred stock subject to certain anti-dilution adjustments described under Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments.

Applicable Market Value on Conversion Date	**Conversion Rate**
less than or equal to $29.05	8.6059
between $29.05 and $34.86	8.6059 to 7.1715
equal to or greater than $34.86	7.1715

Optional Conversion

At any time prior to June 15, 2009, you may elect to convert each of your shares of our mandatory convertible preferred stock at the minimum conversion rate of 7.1715 shares of

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	common stock for each share of mandatory convertible preferred stock. This conversion rate is subject to certain adjustments as described under Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments.
Provisional Conversion at Our Option	If, at any time prior to June 15, 2009, the closing price per share of common stock exceeds $52.29 (150% of the threshold appreciation price of $34.86), subject to anti-dilution adjustments, for at least 20 trading days within a period of 30 consecutive trading days, we may elect to cause the conversion of all, but not less than all, of our mandatory convertible preferred stock then outstanding at the minimum conversion rate of 7.1715 shares of common stock for each share of mandatory convertible preferred stock, subject to certain adjustments as described under Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments, only if, in addition to issuing you such shares of common stock, at the time of such conversion we are then legally permitted to and do pay you (i) the present value of all the remaining future dividend payments through and including June 15, 2009, on our mandatory convertible preferred stock, computed using a discount rate equal to the treasury yield, plus (ii) an amount equal to any accrued, cumulated and unpaid dividend payments on our mandatory convertible preferred stock, whether or not declared (other than previously declared dividends on our mandatory convertible preferred stock payable to holders of record as of a prior date). See Description of Mandatory Convertible Preferred Stock Provisional Conversion at Our Option.
Conversion upon Cash Acquisition; Cash Acquisition Make-Whole Amount	If we are the subject of specified cash acquisitions on or prior to June 15, 2009, under certain circumstances we will (i) permit conversion of our mandatory convertible preferred stock during the period beginning on the date that is 15 days prior to the applicable effective date of the anticipated cash acquisition and ending on the date that is 15 days after the actual effective date at a specified conversion rate determined by reference to the price per share of our common stock paid in such cash acquisition and (ii) pay converting holders an amount equal to the sum of any accumulated and unpaid dividends on shares of our mandatory convertible preferred stock that are converted plus the present value of all remaining dividend payments on such shares through and including June 15, 2009, as described under Description of Mandatory Convertible Preferred Stock Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount. The applicable conversion rate will be determined based on such date such transaction becomes

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effective and the price paid per share of our common stock in such transaction. However, if such transaction constitutes a public acquirer change of control, in lieu of providing for conversion and paying the dividend amount, we may elect to adjust our conversion obligation such that upon conversion of the mandatory convertible preferred stock, we will deliver acquirer common stock as described under Description of Mandatory Convertible Preferred Stock Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount Public Acquirer Change of Control.

Anti-dilution Adjustments	The formula for determining the conversion rate and the number of shares of common stock to be delivered upon conversion may be adjusted in the event of, among other things, stock dividends or distributions in shares of common stock or subdivisions, splits and combinations of our common shares. See Description of Mandatory Convertible Preferred Stock Anti-dilution Adjustments.
Liquidation Preference	$250.00 per share of mandatory convertible preferred stock, plus an amount equal to the sum of all accrued, cumulated and unpaid dividends.
Voting Rights	Except as required by Oklahoma law and our certificate of incorporation, which will include the certificate of designation for the mandatory convertible preferred stock, the holders of mandatory convertible preferred stock will have no voting rights unless dividends payable on the mandatory convertible preferred stock are in arrears for six or more quarterly periods. In that event, the holders of the mandatory convertible preferred stock, voting as a single class with the shares of any other preferred stock or preference securities having similar voting rights (including our existing preferred stock), will be entitled at the next regular or special meeting of our shareholders to elect two directors and the number of directors that comprise our board will be increased by the number of directors so elected. These voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the mandatory convertible preferred stock has been paid in full. The affirmative consent of holders of at least 66 2/3% of the outstanding mandatory convertible preferred stock will be required for the issuance of any class or series of stock (or security convertible into stock) ranking senior to the mandatory convertible preferred stock as to dividend rights or rights upon our liquidation, winding-up or dissolution and for amendments to our certificate of incorporation that would adversely affect the rights of holders of the mandatory convertible preferred stock.

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Ranking

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

- senior to all of our common stock and to all of our other capital stock issued in the future unless the terms of that stock expressly provide that it ranks senior to, or on a parity with, the mandatory convertible preferred stock;
- on a parity with our existing 5.00% Cumulative Convertible Preferred Stock (Series 2003), our existing 4.125% Cumulative Convertible Preferred Stock, our existing 5.00% Cumulative Convertible Preferred Stock (Series 2005) our existing 4.50% Cumulative Convertible Preferred Stock, our existing 5.00% Cumulative Convertible Preferred Stock (Series 2005B) and with any of our capital stock issued in the future, the terms of which expressly provide that it will rank on a parity with the mandatory convertible preferred stock; and
- junior to all of our capital stock issued in the future, the terms of which expressly provide that such stock will rank senior to the mandatory convertible preferred stock.

We currently have 38,625 shares of 5.00% Cumulative Convertible Preferred Stock (Series 2003) issued and outstanding with an aggregate liquidation preference of $3.9 million, 3,065 shares of 4.125% Cumulative Convertible Preferred Stock issued and outstanding with an aggregate liquidation preference of $3.1 million, 4,600,000 shares of 5.00% Cumulative Convertible Preferred Stock (Series 2005) issued and outstanding with an aggregate liquidation preference of $460 million, 3,450,000 shares of 4.50% Cumulative Convertible Preferred Stock issued and outstanding with an aggregate liquidation preference of $345 million and 5,750,000 shares of 5.00% Cumulative Convertible Preferred Stock (Series 2005B) issued and outstanding with an aggregate liquidation preference of $575 million.

Use of Proceeds

We expect the net proceeds to us from this offering, after deducting discounts to the underwriters and estimated expenses of the offering payable by us and without exercise of the underwriters option to purchase additional shares of mandatory convertible preferred stock, to be approximately $484.8 million. We intend to use the net proceeds from this offering, together with the net proceeds from our pending public offerings of common stock and senior notes to finance the purchase of our pending acquisitions, to pay related fees and expenses, to repay outstanding indebtedness under our revolving bank credit facility and for general corporate

	purposes, including to finance possible future acquisitions. Please see Use of Proceeds.
Tax Consequences	The U.S. Federal income tax consequences of purchasing, owning and disposing of the mandatory convertible preferred stock and any common stock received upon its conversion are described in U.S. Federal Income Tax Considerations. As described therein, the number of shares of common stock that you are entitled to receive on the mandatory conversion date, or as a result of early conversion of the mandatory convertible preferred stock, is subject to adjustment, including for certain events arising from stock splits and combinations, stock dividends and certain cash dividends. If the conversion rate is adjusted as a result of a distribution that is taxable to the holders of our common stock, you generally would be required to include an amount in income for Federal income tax purposes (and, if you are a non-U.S. holder, such amount generally would be subject to withholding) notwithstanding the fact that you do not actually receive a distribution.
Listing	We intend to apply to list the mandatory convertible preferred stock on the New York Stock Exchange, subject to satisfaction of its minimum listing standards.
Book-Entry, Delivery and Form	Initially, the mandatory convertible preferred stock will be represented by one or more permanent global certificates in definitive, fully registered form deposited with a custodian for, and registered in the name of, a nominee of DTC.
Common Stock	Our common stock is listed for trading on the NYSE under the symbol CHK.

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RISK FACTORS

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

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables set forth summary consolidated financial data as of and for each of the three years ended December 31, 2005, 2004 and 2003 and three months ended March 31, 2006 and 2005. This data was derived from our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2005 and from our unaudited condensed consolidated financial statements included in our quarterly report on Form 10-Q for the three months ended March 31, 2006, each of which is incorporated by reference herein. The financial data below should be read together with, and is qualified in its entirety by reference to, our historical consolidated financial statements and the accompanying notes and the Management s Discussion and Analysis of Financial Condition and Results of Operations which are set forth in such annual report on Form 10-K and quarterly report on Form 10-Q.

	Years Ended December 31,			Three Months Ended March 31,	
	2005	2004	2003	2006	2005
	($ in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Oil and natural gas sales	$ 3,272,585	$ 1,936,176	$ 1,296,822	$ 1,510,821	$ 538,942
Marketing sales	1,392,705	773,092	420,610	404,367	244,508
Service operations revenue				29,379	
Total revenues	4,665,290	2,709,268	1,717,432	1,944,567	783,450
Operating costs:					
Production expenses	316,956	204,821	137,583	119,392	69,562
Production taxes	207,898	103,931	77,893	55,373	35,958
General and administrative expenses	64,272	37,045	23,753	28,791	12,067
Marketing expenses	1,358,003	755,314	410,288	391,360	237,276
Service operations expense				14,437	
Oil and natural gas depreciation, depletion and amortization	894,035	582,137	369,465	304,957	180,968
Depreciation and amortization of other assets	50,966	29,185	16,793	23,872	10,082
Provision for legal settlements		4,500	6,402		
Employee retirement expense				54,753	
Total operating costs	2,892,130	1,716,933	1,042,177	992,935	545,913
Income from operations	1,773,160	992,335	675,255	951,632	237,537
Other income (expense):					
Interest and other income	10,452	4,476	2,827	9,636	3,357
Interest expense	(219,800)	(167,328)	(154,356)	(72,658)	(43,128)
Loss on investment in Seven Seas			(2,015)		
Loss on repurchases or exchanges of Chesapeake debt	(70,419)	(24,557)	(20,759)		(900)
Gain on sale of investment				117,396	
Total other income (expense)	(279,767)	(187,409)	(174,303)	54,374	(40,671)

No valuation allowance has been recognized for the deferred tax assets as management believes it is more likely than not that all of the deferred tax assets will be realized.

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REXAIR HOLDINGS, LLC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Operating Leases

The Company is obligated under certain operating leases expiring at various dates through July 2008 for vehicles, office equipment, and the Company s administrative headquarters. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was approximately $129,000 for the period from July 1, 2005 to October 1, 2005.

Future minimum annual commitments under these operating leases are as follows:

Years Ending October 1	Amount
2006	$ 270,000
2007	5,000
2008	4,000
Total	$ 279,000

Note 10 Retirement Plan

The Company provides a defined contribution savings plan for substantially all employees. The plan provides for the Company to make required matching contributions. Expenses under the plan amounted to $68,000 for the period from July 1, 2005 to October 1, 2005.

Note 11 Warranties

The Company provides limited repair or replacement warranties on certain of its products. The Company records a reserve for future warranty costs based on current unit sales, historical experience, and management s judgment regarding anticipated rates of warranty claims and cost per claim. The adequacy of the recorded warranty reserves is assessed each quarter and adjustments are made as necessary. Other accrued liabilities and other long-term liabilities on the accompanying consolidated balance sheet include $374,000 and $690,000, respectively, of the warranty reserve. Following is a reconciliation of the Company s aggregate warranty obligation for the period from July 1, 2005 to October 1, 2005:

Balance July 1, 2005	$ 1,178,000
Warranty claims during three-month period	(228,000)
Warranty obligations recognized during three-month period	114,000
Balance October 1, 2005	$ 1,064,000

Note 12 Contingencies

Environmental Regulation - The Company is remediating contamination at a present operating site under a Consent Judgment entered into with the State of Michigan s Department of Environmental Quality (DEQ). No information currently available reasonably suggests that projected expenditures associated with ongoing remediation of the site will have a material adverse effect on the Company s financial condition, results of operations, or cash flows.

The Company recognizes liabilities for environmental remediation costs when such obligations are probable and reasonably estimable. Under the Consent Judgment with the DEQ, the Company has established a program to remediate contaminated groundwater located at the operating site referred to above. In connection with the agreement, the Company incurred remediation costs of approximately $82,000 for the period from July 1, 2005 to October 1,

2005. In addition, the Company has recorded a liability of approximately $728,000 as of October 1, 2005 which reflects the estimated future remediation costs for the remaining life of the agreement.

The DEQ has further alleged that the Company is responsible for contamination extending beyond the groundwater site identified above. Management believes that the range of potential loss relating to this matter is approximately $2,700,000 to $5,600,000. Management is vigorously defending the claim and, based on the advice of legal counsel, believes the likelihood of an unfavorable outcome is only reasonably possible. In addition, under the merger agreement described in Note 1, Jacuzzi has indemnified the Company for certain environmental claims, including this claim, up to $5,000,000. Therefore, no liability related to his matter has been recorded at October 1, 2005.

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REXAIR HOLDINGS, LLC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Contingencies (Continued)

Litigation - The Company is also the defendant or the plaintiff in lawsuits that have arisen in the normal course of business. While certain of these matters may involve substantial amounts, it is management s belief, based on the advice of legal counsel, that the ultimate resolution of such litigation will not have a material adverse effect on the Company s financial conditions, consolidated results of operations, or cash flows.

Note 13 Members Capital

The Company has two classes of membership interests, common and preferred. In connection with the capitalization of Holdings and the acquisition transaction described in Note 1, Rhone received a 70 percent interest and Jacuzzi a 30 percent interest in Holdings in exchange for their contributions. For each member s capital contribution, 90 percent is allocated to preferred members interest and 10 percent is allocated to common members interest. Members are not entitled to interest on their capital contributions.

Discretionary distributions must be allocated as follows: (i) first, to members with preferred interests such that aggregate distributions equal a 10 percent return on their preferred interests, (ii) second, to members with preferred interests such that their preferred interest capital contributions have been repaid, (iii) third, to members with common interests such that their common interest capital contributions have been repaid, and (iv) last, to members with common interests in accordance with their common interest ownership.

During the three months ended October 1, 2005, Holdings issued an additional membership interest of $380,000 in exchange for a note receivable from the member. The note receivable, which is secured by the member s ownership interest, bears interest at 10 percent and is due in December 2012.

Note 14 Related Party Transactions

Following is a description of transactions between the Company and related parties:

Accounts Receivable Affiliate - At October 1, 2005 and pursuant to the aforementioned merger transaction described in Note 1, the Company has amounts due from Jacuzzi related to certain compensation costs and certain environmental remediation expenses totaling $3,007,000.

Management Fees - For the period July 1, 2005 to October 1, 2005, the Company incurred expenses for management fees related to services and support provided by Rhone totaling $75,000.

Note 15 Cash Flows

Cash paid for interest and income taxes totaled $2,825,000 and $0, respectively, for the period from July 1, 2005 to October 1, 2005.

Holdings issued $380,000 of members interest during the three-month period ended October 1, 2005 in exchange for a note receivable. This is a noncash financing activity which is not included in the consolidated statement of cash flows.