CHESAPEAKE ENERGY CORP
Form 424B5
February 08, 2011
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Registration No. 333-168509

PROSPECTUS SUPPLEMENT (Subject to Completion) Issued February 8, 2011

(To Prospectus dated August 3, 2010)

$1,000,000,000

% Senior Notes due 2021

We are offering $1.0 billion of our % Senior Notes due 2021. We will pay interest on the notes semiannually in arrears on each February 15 and August 15, beginning on August 15, 2011, to the holders of record at the close of business on the preceding February 1 and August 1, respectively. The notes will mature on February 15, 2021. The notes will be guaranteed on a senior unsecured basis by each of our existing subsidiaries (other than the Chesapeake Midstream Companies, which are more fully described herein, and certain *de minimis* subsidiaries) and certain of our future subsidiaries, subject to our right, more fully described herein, to obtain the release of such guarantees under certain circumstances. The notes will be senior unsecured obligations of Chesapeake and will rank equally in right of payment with all of Chesapeake s existing and future senior debt and senior to any subordinated debt that it may incur. The notes will be effectively subordinated to the existing and future secured debt and other secured obligations of Chesapeake and the subsidiary guarantors, including debt under our corporate revolving bank credit facility and our obligations under our multi-counterparty secured hedging facility, to the extent of the value of the assets securing amounts outstanding under such facilities. The notes will also be effectively subordinated to the debt of any non-guarantor subsidiaries, including the obligations of the Chesapeake Midstream Companies under the midstream revolving bank credit facility described herein.

We may redeem some or all of the notes at any time at a redemption price equal to 100% of the principal amount of the notes plus a make-whole premium, plus accrued and unpaid interest, if any, to the date of redemption, described in this prospectus supplement under Description of Notes Optional Redemption. If we or certain of our subsidiaries enter into certain sale-leaseback transactions and do not reinvest the proceeds or repay certain senior debt, we must offer to repurchase the notes.

Investing in the notes involves risks. For a discussion of certain of these risks, please read the discussion of material risks described in Risk Factors beginning on page S-12.

PRICE % AND ACCRUED INTEREST, IF ANY

	Price to Public(1)	Underwriting Discount	Proceeds to Chesapeake Energy(1)
Per Note	%	%	%
Total	$	$	$

(1) Before expenses and plus any accrued interest from February , 2011.

The underwriters expect to deliver the notes to investors on or about February , 2011, in book-entry form through the facilities of The Depository Trust Company.

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

Joint Book-Running Managers

MORGAN STANLEY *WELLS FARGO SECURITIES*

February , 2011

This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus supplement is not an offer to sell these securities in any state where the offer or sale is not permitted.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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

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

NOTICE TO INVESTORS

This prospectus supplement and the accompanying prospectus do not offer to sell or ask for offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who can not legally be offered the securities.

In making an investment decision, prospective investors must rely on their own examination of the company and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this prospectus supplement and the accompanying prospectus as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment, or similar laws or regulations.

This prospectus supplement and the accompanying prospectus contain summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to us.

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 and is qualified in its entirety by the more detailed information included or incorporated by reference into this prospectus supplement or the accompanying prospectus. 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 by reference herein and therein in their entirety, including the information set forth under the heading Risk Factors in this prospectus supplement, before making an investment decision. In addition, certain statements include forward-looking information that involves risks and uncertainties. See Forward-Looking Statements.

Chesapeake

We are the second largest producer of natural gas and a top 20 producer of oil and natural gas liquids in the U.S. We own interests in approximately 45,800 producing natural gas and oil wells that are currently producing approximately 3.0 billion cubic feet equivalent, or bcfe, per day, 87% of which is natural gas. Our strategy is focused on discovering and developing unconventional natural gas and oil fields onshore in the U.S., primarily in the Barnett Shale in the Fort Worth Basin of north-central Texas, the Haynesville and Bossier Shales in the Ark-La-Tex area of northwestern Louisiana and East Texas, the Fayetteville Shale in the Arkoma Basin of central Arkansas, the Marcellus Shale in the northern Appalachian Basin of West Virginia, Pennsylvania and New York, the Eagle Ford Shale in South Texas, the Granite Wash in western Oklahoma and the Texas Panhandle regions and the Niobrara Shale and Frontier Sand plays in the Denver-Julesburg (DJ) and Powder River Basins of Wyoming and Colorado. We also have holdings in other liquids-rich 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 U.S. We recently announced that we have decided to sell our Fayetteville Shale assets as part of our strategic and financial plan for 2011 and 2012, and we have entered into a cooperation agreement for the joint development of our Niobrara Shale acreage. Please see Recent Developments. Additionally, we have vertically integrated our operations and own substantial midstream, compression, drilling and oilfield service assets.

In 2010, we announced that we are extending our strategy to apply the horizontal drilling expertise we have gained in our natural gas plays to unconventional oil reservoirs. Our goal is to reach a balanced mix of natural gas and liquids revenue as quickly as possible through organic drilling, rather than through acquisitions. This transition is already apparent in the mix of natural gas and oil and natural gas liquids wells we are drilling. In 2010, approximately 32% of our drilling and completion capital expenditures were allocated to liquids-rich plays, compared to 10% in 2009, and we are projecting that these expenditures will reach 70% in 2012. Our production of oil and natural gas liquids has been increasing as we develop our new unconventional oil plays. In particular, we have been developing the Granite Wash, Tonkawa, Cleveland and Mississippian plays of the Anadarko Basin, the Avalon, Bone Spring and Wolfcamp plays of the Permian Basin, the Eagle Ford Shale in South Texas and the Niobrara Shale in Wyoming and Colorado. As of September 30, 2010, the company owned approximately 3.1 million net leasehold acres in unconventional liquids-rich plays.

We began 2010 with estimated proved reserves of 14.254 trillion cubic feet equivalent, or tcfe, and ended the third quarter of 2010 with 16.223 tcfe, an increase of 1.969 tcfe, or approximately 14%. During the nine months ended September 30, 2010, we replaced 767 bcfe of production with an internally estimated 2.736 tcfe of new proved reserves, for a reserve replacement rate of 357%. Proved reserve movement in the first nine months of 2010 included 3.355 tcfe of extensions, 611 bcfe of positive performance revisions and 219 bcfe of positive revisions resulting from an increase in the twelve-month trailing average natural gas and oil prices between December 31, 2009 and September 30, 2010. During the first nine months of 2010, we acquired 50 bcfe of estimated proved reserves and divested 1.499 tcfe of estimated proved reserves.

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During the nine months ended September 30, 2010, we continued the industry s most active drilling program, drilling 1,041 gross operated wells (676 net wells with an average working interest of 65%) and participating in another 911 gross wells operated by other companies (118 net wells with an average working interest of 13%). The company s drilling success rate was 99% for company-operated wells and 98% for non-operated wells. During the same period, we invested $3.308 billion in operated wells (using an average of 127 operated rigs) and $545 million in non-operated wells (using an average of 111 non-operated rigs) for total drilling, completing and equipping costs of $3.853 billion (net of carries).

Our total production for the nine months ended September 30, 2010 was 766.6 bcfe, comprised of 689.6 billion cubic feet, or bcf, of natural gas (90% on a natural gas equivalent basis) and 12.8 million barrels, or mmbbls, of oil and natural gas liquids (10% on a natural gas equivalent basis). Daily production during the nine months ended September 30, 2010 averaged 2.808 bcfe, an increase of 373 million cubic feet equivalent, or mmcfe, or approximately 15%, over the 2.435 bcfe produced per day during the nine months ended September 30, 2009.

Since 2000, we have built the largest combined inventories of onshore leasehold (13.8 million net acres as of September 30, 2010) and 3-D seismic (27.4 million acres as of September 30, 2010) in the U.S. and the largest inventory of U.S. natural gas shale play leasehold (2.8 million net acres as of September 30, 2010). We now own the largest inventory of leasehold in two of the Top 3 new unconventional liquids-rich plays the Eagle Ford Shale and the Niobrara Shale. We are currently using 154 operated drilling rigs to further develop our inventory of approximately 40,000 net drill sites.

We are an Oklahoma corporation. Our principal offices are located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118, and our telephone number is 405-848-8000.

Recent Developments

Update to Our Strategic and Financial Plan for 2011 and 2012

Fayetteville Shale, Frac Tech Holdings, LLC and Chaparral Energy, Inc. Asset Sales

We recently announced that we have commenced efforts to sell all of our Fayetteville Shale assets and our equity investments in Frac Tech Holdings, LLC and Chaparral Energy, Inc. We plan to use a portion of the net proceeds from these sales and our Niobrara project cooperation agreement discussed below to retire approximately $2.0 billion to $3.0 billion of our shorter-dated outstanding senior notes and to reduce borrowings under our corporate revolving bank credit facility. The amount of senior notes retired will depend in part on our ability to acquire such notes in the market or through tender offers. We are seeking to complete these sales during the first half of 2011.

We own approximately 487,000 net acres of leasehold in the Fayetteville Shale and our current net natural gas production there is approximately 415 mmcfe per day, or approximately 13.8% of our total daily production, and our total net production there was 136.8 bcfe for the twelve-month period ended December 31, 2010, or approximately 13% of our total net production during that period. Estimated proved reserves attributable to the Fayetteville Shale were 2.4 tcfe, or approximately 14% of our total proved reserves, as of December 31, 2010. We own a 25.8% equity interest in Frac Tech Holdings, LLC and a 20% equity interest in Chaparral Energy, Inc.

Each of these asset sales is subject to changes in market conditions and other factors, and there can be no assurance that we will complete these transactions on a timely basis or at all.

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Niobrara Project Cooperation Agreement

In January 2011, we entered into an agreement with CNOOC International Limited, a wholly-owned subsidiary of CNOOC Limited, under which it will purchase a 33.3% undivided interest in our 800,000 net natural gas and oil leasehold acres in the DJ and Powder River Basins in northeast Colorado and southeast Wyoming. The consideration for the transaction will be $570 million in cash at closing. In addition, CNOOC has agreed to fund 66.7% of our share of drilling and completion costs until an additional $697 million has been paid, which we expect to occur by year-end 2014. Closing of the transaction, which is subject to customary conditions, is anticipated in the first quarter of 2011.

25/25 Plan

In January 2011 we updated our strategic and financial plan originally announced in May 2010 with our 25/25 Plan. The 25/25 Plan details our intention to reduce our outstanding long-term indebtedness by 25% by the end of 2012 and to reduce our planned two-year net production growth rate to 25% from the previous target of 30% to 40%. The reduction in our projected production growth rate is the result of asset divestitures that we plan to execute during that period, including our Fayetteville Shale asset divestiture described above. We plan to fund the debt reduction primarily with proceeds from asset sales.

Asset Sale to Chesapeake Midstream Partners, L.P.

In December 2010, we sold our Springridge natural gas gathering system and related facilities in the Haynesville Shale to our affiliate Chesapeake Midstream Partners, L.P. (CHKM) for cash consideration of $500 million. In connection with this transaction, we entered into a ten-year natural gas gathering agreement with CHKM covering Haynesville and Bossier Shale production.

Eagle Ford Project Cooperation Agreement

In November 2010, we closed a project cooperation agreement with CNOOC, under which it purchased a 33.3% undivided interest in our 600,000 net natural gas and oil leasehold acres in the Eagle Ford Shale play in South Texas. The consideration for the transaction was $1.12 billion in cash. In addition, CNOOC has agreed to fund 75% of our share of drilling and completion costs up to $1.08 billion, which we expect to occur by year-end 2012.

Amended and Restated Corporate Revolving Bank Credit Facility

In December 2010, we amended and restated our corporate revolving bank credit facility to, among other things, increase the aggregate borrowing commitments thereunder from $3.5 billion to $4.0 billion and to extend the maturity to December 2015. For a more detailed description of our corporate revolving bank credit facility, please read Description of Certain Other Indebtedness Corporate Revolving Bank Credit Facility.

Operational Results

On January 6, 2011, we announced the following preliminary operational information related to the 2010 fourth quarter and full year:

average daily production for the 2010 fourth quarter of 2.9 bcfe, a decrease of 4% below the 3.0 bcfe produced per day in the 2010 third quarter and an increase of 11% over the 2.6 bcfe of daily production in the 2009 fourth quarter (2010 fourth quarter production would have increased 7% sequentially and 25% year over year excluding the sale of future production through a volumetric production payment covering a portion of our Barnett Shale assets, including approximately 350 mmcfe per day of production in the 2010 fourth quarter);

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- average daily production for the 2010 fourth quarter consisted of 2.6 bcf of natural gas (88% on a natural gas equivalent basis) and approximately 59,500 barrels of oil and natural gas liquids (12% on a natural gas equivalent basis), which represented year-over-year growth rates of 5% for natural gas production and 100% for oil and natural gas liquids production;

- average daily production for the 2010 full year of 2.8 bcfe, an increase of 14% over the 2.5 bcfe of daily production for the 2009 full year; and

- year-end 2010 estimated proved reserves of approximately 16.9 tcfe, an increase of approximately 2.6 tcfe, or 18%, over year-end 2009 estimated proved reserves of 14.3 tcfe, which growth occurred despite net divestitures of approximately 1.4 tcfe of proved reserves during 2010.

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THE OFFERING

The summary below describes the principal terms of the notes. Some of the terms and conditions described below are subject to important limitations and exceptions. The Description of Notes section of this prospectus supplement contains a more detailed description of the terms and conditions of the notes.

Issuer	Chesapeake Energy Corporation.
Notes Offered	$1.0 billion in aggregate principal amount of our % Senior Notes due 2021.
Maturity Date	February 15, 2021.
Interest	Interest on the notes will accrue at an annual rate of %. Interest will be paid semi-annually in arrears on February 15 and August 15 of each year, commencing August 15, 2011.
Guarantees	The notes will be unconditionally guaranteed, jointly and severally, by (i) each of our existing subsidiaries, other than Chesapeake Midstream Development, L.P. and its subsidiaries and its general partner (the Chesapeake Midstream Companies) and certain *de minimis* subsidiaries, and (ii) each of our future subsidiaries that guarantees any other indebtedness of us or a subsidiary guarantor in excess of $25 million. The guarantee will be released automatically if we dispose of the subsidiary guarantor or it ceases to guarantee certain other indebtedness of us or any other subsidiary guarantor. See Description of Notes Guarantees.

At September 30, 2010, the total assets and total liabilities of our non-guarantor subsidiaries were approximately $2.635 billion and $2.514 billion, respectively. For the nine-month period ended September 30, 2010, our non-guarantor subsidiaries generated $179 million and $89 million of our revenues and net income (loss) attributable to Chesapeake, respectively.

Ranking	The notes will be unsecured and will rank equally in right of payment to all of our existing and future senior indebtedness. The notes will rank senior in right of payment to all of our future subordinated indebtedness. The notes will be effectively subordinated to our and our guarantor subsidiaries existing and future secured debt and other secured obligations, including under our corporate revolving bank credit facility and our multi-counterparty secured hedging facility, to the extent of the value of the assets securing amounts outstanding under such facilities. The notes will also be effectively subordinated to the debt of any non-guarantor subsidiaries, including the obligations of the Chesapeake Midstream Companies under the midstream revolving bank credit facility. See Description of Notes Ranking.
	As of September 30, 2010, we had approximately $12.209 billion in principal amount of senior indebtedness outstanding, $2.487 billion of which was secured. After giving effect to the transactions described in Capitalization, including the completion of this offering and the

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	application of the net proceeds therefrom as described under Use of Proceeds, we would have had, on a *pro forma* basis as of September 30, 2010, approximately $12.225 billion in principal amount of senior indebtedness outstanding, $1.503 billion of which would have been secured.
Optional Redemption	We may redeem some or all of the notes at any time prior to maturity at a price equal to 100% of the principal amount of the notes plus a make-whole premium, plus accrued and unpaid interest, if any, to the date of redemption, described under Description of Notes Optional Redemption.
Restrictive Covenants	The indenture governing the notes contains covenants that limit our ability and certain of our subsidiaries ability to: create liens securing certain indebtedness; enter into certain sale-leaseback transactions; and consolidate, merge or transfer assets.

The covenants are subject to a number of exceptions and qualifications. See Description of Chesapeake Debt Securities Certain Covenants in the accompanying prospectus.

Use of Proceeds	We expect the net proceeds to us from this offering, after deducting the underwriting discount and estimated expenses, to be approximately $984 million. We intend to use the net proceeds from this offering to repay amounts outstanding under our corporate revolving bank credit facility. See Use of Proceeds.
Book-Entry, Delivery and Form	Initially, the notes 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 The Depository Trust Company.
Conflicts of Interest	Because affiliates of Wells Fargo Securities, LLC will receive more than 5% of the net proceeds of this offering, this offering is being made in compliance with Rule 5121 of the rules of the Financial Industry Regulatory Authority, Inc. (FINRA). Accordingly, Morgan Stanley & Co. Incorporated is assuming the responsibilities of acting as the qualified independent underwriter in pricing the offering and conducting due diligence. No underwriter having a conflict of interest under FINRA Rule 5121 will confirm sales to any account over which the underwriter exercises discretionary authority without the specific written approval of the accountholder.

Risk Factors

You should carefully consider all information in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein as set out in the section entitled Where You Can Find More Information. 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 notes.

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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, 2009, 2008 and 2007 and the nine months ended September 30, 2010 and 2009. This data (other than balance sheet data for 2007, which was derived from previously filed audited financial statements) was derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 and from our unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2010, each of which is incorporated by reference herein. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full year period. The historical financial information may not be indicative of our future performance. 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 Management s Discussion and Analysis of Financial Condition and Results of Operations appearing in such Annual Report on Form 10-K and Quarterly Report on Form 10-Q.

	Years Ended December 31,			Nine Months Ended September 30,	
	2009	2008	2007	2010	2009
	($ in millions, except per share data)				
Statement of Operations Data:					
Revenues:					
Natural gas and oil sales	$ 5,049	$ 7,858	$ 5,624	$ 4,698	$ 3,681
Marketing, gathering and compression sales	2,463	3,598	2,040	2,520	1,660
Service operations revenue	190	173	136	173	139
Total Revenues	7,702	11,629	7,800	7,391	5,480
Operating Costs:					
Production expenses	876	889	640	652	670
Production taxes	107	284	216	119	71
General and administrative expenses	349	377	243	340	259
Marketing, gathering and compression expenses	2,316	3,505	1,969	2,429	1,569
Service operations expense	182	143	94	154	136
Natural gas and oil depreciation, depletion and amortization	1,371	1,970	1,835	1,025	1,037
Depreciation and amortization of other assets	244	174	153	159	177
Impairment of natural gas and oil properties	11,000	2,800			9,600
Impairment or loss on sale of other property and equipment	168	30		37	159
Restructuring costs	34				34
Total Operating Costs	16,647	10,172	5,150	4,915	13,712
Income (loss) from operations	(8,945)	1,457	2,650	2,476	(8,232)
Other Income (expense):					
Interest expense	(113)	(271)	(401)	(12)	(52)
Loss on redemptions or exchanges of Chesapeake debt	(40)	(4)		(130)	(19)
Impairment of investments	(162)	(180)		(16)	(162)
Gain on sale of investments			83		
Other income (expense)	(28)	(11)	15	202	(25)
Total Other Income (Expense)	(343)	(466)	(303)	44	(258)
Income (loss) before income taxes	(9,288)	991	2,347	2,520	(8,490)