

CHESAPEAKE ENERGY CORP
Form 11-K
June 28, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

Or

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-13726-23

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

NOMAC DRILLING 401(k) PLAN

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B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

CHESAPEAKE ENERGY CORPORATION

6100 NORTH WESTERN AVENUE

OKLAHOMA CITY, OK 73118

NOMAC DRILLING 401(k) PLAN

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

December 31, 2004 and 2003

NOMAC Drilling 401(k) Plan

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Note: Other schedules required by section 2520-103.10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants and Members of the Employee Compensation and Benefits

Committee of NOMAC Drilling 401(K) Plan:

In our opinion the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the NOMAC Drilling 401(K) Plan (the Plan) at December 31, 2004 and 2003, and the changes in net assets available for benefits for the year ended December 31, 2004 and the period from July 1, 2003 (date of inception) through December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Assets (Held at End of Year) and Reportable Transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan s management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Oklahoma City, Oklahoma

June 24, 2005

NOMAC Drilling 401(k) Plan

Statements of Net Assets Available for Benefits

December 31, 2004 and 2003

	December 31,	
	2004	2003
Assets:		
Investments (at fair value)	\$ 821,463	\$ 276,145
Dividend receivable	1,318	424
Total assets	822,781	276,569
Liabilities:		
Accrued liabilities	10,378	7,823
Net assets available for benefits	\$ 812,403	\$ 268,746

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

NOMAC Drilling 401(k) Plan**Statements of Changes in Net Assets Available for Benefits**

For the Year Ended December 31, 2004 and the Period July 1, 2003 (Date of Inception) to December 31, 2003

	Year Ended December 31, 2004	Period July 1, 2003 to December 31, 2003
Additions to net assets attributed to:		
Investment Income:		
Interest and dividends	\$ 9,957	\$ 1,944
Net appreciation in fair value of investments	80,354	35,679
Total investment income	90,311	37,623
Contributions:		
Employer	229,993	106,984
Participants	287,976	132,956
Total contributions	517,969	239,940
Total additions	608,280	277,563
Deductions from net assets attributed to:		
Benefits paid to participants	54,612	986
Administrative expenses	10,011	7,831
Total deductions	64,623	8,817
Net increase	543,657	268,746
Net assets available for benefits:		
Beginning of period	268,746	-
End of period	\$ 812,403	\$ 268,746

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

NOMAC Drilling 401(k) Plan

Notes to Financial Statements

December 31, 2004 and 2003

1. Description of the Plan

The following is a brief summary of the various provisions of the NOMAC Drilling 401(K) Plan (the Plan). NOMAC Drilling Corporation is a wholly-owned subsidiary of Chesapeake Energy Corporation (Chesapeake). Participants should refer to the Plan agreement for a complete description of the Plan s provisions.

General

The Plan is a defined contribution plan that covers all employees of NOMAC Drilling Corporation (the Company). Any employee who is at least 21 years old and has completed six months of employment with the Company is eligible to participate in the Plan.

Contributions

Each year, participants may contribute up to 25 percent of pre-tax annual compensation, as defined by the Plan. Participants may also contribute amounts representing rollover distributions from other qualified plans. The Company matches 100 percent of participant contributions up to 6 percent of eligible participant compensation. Effective January 1, 2005, the Company shall match 100 percent of participant contributions up to 8 percent of eligible participant compensation. Profit-sharing contributions may be made at the discretion of the Company s board of directors. No discretionary profit-sharing contributions were made in 2004 or 2003. Contributions are subject to certain limitations.

The Company s matching contribution is used to purchase shares of Chesapeake Energy Corporation common stock (the Common Stock) on the open market. The Company s contribution is made in cash and shares of Common Stock which have been forfeited to the Company by terminated participants. Participants may also elect to direct all or a portion of their contributions into the Common Stock. Participants may not transfer or liquidate their investment in Common Stock arising from employer contributions and earnings thereon until they elect to withdraw from the Plan due to separation of service or elect an in-service distribution upon attainment of age 59 ½ .

Participant Accounts

Each participant s account is credited with the participant s contribution and allocations of the Company s contribution and Plan earnings. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account balance.

Vesting

Participants are immediately vested in their personal contributions plus actual earnings thereon. Vesting in the Company s matching and profit sharing contributions plus actual earnings thereon is based on years of credited service or participant age. A participant will be 100 percent vested after five years of credited service under a graded vesting schedule.

NOMAC Drilling 401(k) Plan

Notes to Financial Statements

December 31, 2004 and 2003

Participant Loans

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. Loan terms range from one to five years or up to ten years for the purchase of a primary residence. The loans are collateralized by the balance in the participant's account and bear interest at the Prime Interest Rate. The Prime Interest Rate at December 31, 2004 was 5.25%. Principal and interest is paid ratably through bi-weekly payroll deductions. Interest rates on loans outstanding at December 31, 2004 ranged from 4.00% to 10.00%.

Payment of Benefits

Upon termination of service due to death, retirement or separation from service, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account or annual installments, or have the value rolled over to another qualified plan or IRA.

Amounts Forfeited

Forfeited nonvested amounts are first used to pay administrative expenses of the Plan or to restore unvested amounts to re-employed participants. Any remaining forfeitures are used to reduce Company contributions into the Plan. Forfeited nonvested accounts totaled \$17,293 and \$736 at December 31, 2004 and 2003, respectively. During 2004 and 2003, administrative expenses were reduced by \$5,779 and \$0, respectively, and employer matching contributions were reduced by \$0 and \$0, respectively, from forfeited nonvested accounts.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

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The Plan's investments are stated at fair value. Shares of mutual funds are valued at net asset value on the last business day of the year. Chesapeake Energy Corporation common stock is valued at the closing market price on the last business day of the year, according to the New York Stock Exchange. Participant loans are valued at outstanding principal balances plus accrued interest, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Investment income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

NOMAC Drilling 401(k) Plan**Notes to Financial Statements****December 31, 2004 and 2003**

The Plan presents, in the statement of changes in net assets available for benefits, the net appreciation (depreciation) in the fair value of investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

Payment of Benefits

Benefits are recorded when paid.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

Plan Expenses

Certain plan expenses are paid by the plan sponsor and are not included in these financial statements.

3. Investments

The following presents investments that represented five percent or more of the Plan's net assets:

	2004		2003	
Chesapeake Energy Corporation Common Stock	\$ 483,158	*	\$ 164,513	*
Fidelity Freedom 2020	70,507		15,173	
Fidelity Freedom 2010	49,269		26,365	
Fidelity Freedom Retirement Money Market Fund	41,358		10,545	**

* Balance includes nonparticipant-directed investments.

** Amount represents less than five percent of net assets at December 31, 2003, and is presented for comparative purposes only.

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The Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

		2004		2003
Mutual Funds	\$	10,869	\$	5,206
Common Stocks		69,485		30,473
Total	\$	80,354	\$	35,679