

CHESAPEAKE ENERGY CORP  
Form 8-K  
February 25, 2003

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 8-K

Current Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (date of earliest event reported) February 25, 2003

(February 24, 2003)

# CHESAPEAKE ENERGY CORPORATION

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(Exact name of Registrant as specified in its Charter)

Oklahoma

1-13726

73-1395733

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(State or other jurisdiction of  
incorporation)

(Commission File No.)

(IRS Employer Identification No.)

6100 North Western Avenue, Oklahoma City, Oklahoma

73118

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(Address of principal executive offices)

(Zip Code)

(405) 848-8000

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(Registrant's telephone number, including area code)

**INFORMATION TO BE INCLUDED IN THE REPORT**

**ITEM 9. REGULATION FD DISCLOSURE**

1. Chesapeake Energy Corporation ( Chesapeake ) issued the following press releases on February 24, 2003:

**CHESAPEAKE ENERGY CORPORATION POSTS STRONG RESULTS FOR 2002;**

**OIL AND GAS PRODUCTION AND PROVED RESERVES SET RECORDS**

***Company Reports Fourth Quarter 2002 Net Income Available to Common Shareholders***

***of \$24 Million, Discretionary Cash Flow of \$125 Million and Ebitda of \$157 Million***

***on Revenue of \$255 Million and Production of 50 Bcfe***

***Company Reports Full-Year 2002 Net Income Available to Common Shareholders***

***of \$30 Million, Discretionary Cash Flow of \$410 Million and Ebitda of \$521 Million***

***on Revenue of \$738 Million and Production of 181 Bcfe***

OKLAHOMA CITY, OKLAHOMA, FEBRUARY 24, 2003 Chesapeake Energy Corporation (NYSE: CHK) today reported its financial and operating results for the fourth quarter of 2002 and for the full-year 2002. For the fourth quarter, Chesapeake generated net income available to common shareholders of \$23.7 million (\$0.13 per fully diluted common share), discretionary cash flow (defined as cash flow from operating activities before changes in assets and liabilities and certain non-cash items) of \$125.4 million and ebitda (defined as discretionary cash flow plus interest expense) of \$156.7 million on revenue of \$255.4 million.

The company's fourth quarter 2002 net income available to common shareholders of \$23.7 million included a \$0.6 million after-tax risk management loss (a non-cash item related to the application of SFAS 133 to certain of the company's hedging contracts), a \$7.4 million after-tax loss from the impairment of the company's investment in the securities of Seven Seas Petroleum, Inc. and a \$0.8 million after-tax loss from the early extinguishment of certain Chesapeake debt securities. Without these items, Chesapeake's net income to common shareholders in the fourth quarter of 2002 would have been \$32.5 million (\$0.18 per fully diluted common share).

Production for the fourth quarter of 2002 was 49.5 billion cubic feet of natural gas equivalent (bcfe), comprised of 43.9 billion cubic feet of natural gas (bcf) (89%) and 0.94 million barrels of oil (mmbo) (11%). Oil and natural gas production increased 20% from the fourth quarter of 2001 and 6% compared to the third quarter of 2002. Approximately 9% of the 2.8 bcfe production increase in the 2002 fourth quarter was attributable to acquisitions closed during the fourth quarter. The fourth quarter of 2002 marked Chesapeake's sixth consecutive quarter of production growth compared to six consecutive quarters of production declines in the industry.



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Average prices realized during the fourth quarter of 2002 after hedging were \$24.67 per barrel of oil (bo) and \$4.00 per thousand cubic feet of natural gas (mcf), for a realized gas equivalent price of \$4.01 per thousand cubic feet of natural gas equivalent (mcf). Hedging activities (excluding the effects of Risk Management Income or Loss) decreased fourth quarter 2002 oil price realizations by \$2.3 million (\$2.41 per bo) and increased fourth quarter 2002 gas price realizations by \$14.2 million (\$0.32 per mcf), for a total fourth quarter 2002 revenue increase from hedging activities of \$11.9 million (\$0.24 per mcf).

The table below summarizes Chesapeake's key statistics during the 2002 fourth quarter and compares them to the 2002 third quarter and the 2001 fourth quarter:

	Three Months Ended:		
	12/31/02	9/30/02	12/31/01
Average daily production (in mmcf)	538	507	450
Gas as % of total production	89	89	88
Natural gas production (in bcf)	43.9	41.4	36.5
Average realized gas price (\$/mcf)	4.00	3.39	3.88
Oil production (in mbbbls)	941	872	807
Average realized oil price (\$/bbl)	24.67	25.67	24.07
Natural gas equivalent production (in bcfe)	49.5	46.7	41.4
Gas equivalent realized price (\$/mcf)	4.01	3.49	3.90
General and administrative costs (\$/mcf)	.11	.08	.10
Production taxes (\$/mcf)	.21	.15	.04
Lease operating expenses (\$/mcf)	.54	.53	.47
Interest expense (\$/mcf)	.63	.61	.61
DD&A of oil and gas properties (\$/mcf)	1.28	1.25	1.16
Discretionary cash flow (\$ in millions)	125.4	102.0	112.7
Discretionary cash flow (\$/mcf)	2.53	2.19	2.72
Ebitda (\$ in millions)	156.7	130.4	138.0
Ebitda (\$/mcf)	3.17	2.79	3.34
Net income to common shareholders (\$ in millions)	23.7	14.1	41.3

**Chesapeake Reports Full-Year 2002 Results**

For the full-year 2002, Chesapeake generated net income available to common shareholders of \$30.2 million (\$0.17 per fully diluted common share), discretionary cash flow of \$410.2 million and ebitda of \$521.5 million on revenue of \$737.8 million.

The company's 2002 net income available to common shareholders of \$30.2 million included a \$52.8 million after-tax risk management loss (a non-cash item related to the application of SFAS 133 to certain of the company's hedging contracts), a \$10.3 million after-tax loss from the impairment of the company's investment in the securities of Seven Seas Petroleum, Inc. and a \$1.6 million after-tax loss from the early extinguishment of certain Chesapeake debt securities. Without these items, Chesapeake's net income to common shareholders in 2002 would have been \$94.9 million (\$0.55 per fully diluted common share).

Production for the full year 2002 was 181.5 bcfe, comprised of 160.7 bcf and 3.47 mmbo. Oil and natural gas production increased 12% from 2001, marking Chesapeake's 11<sup>th</sup> consecutive year of production growth. Average prices realized during 2002 after hedging were \$25.22 per bo and \$3.54 per mcf, for a realized gas equivalent price of \$3.61 per mcfe. Hedging activities (excluding the effects of Risk Management Income or Loss) decreased 2002 oil price realizations by \$1.1 million (\$0.32 per bo) and increased 2002 gas price realizations by \$97.1 million (\$0.61 per mcf), for a total 2002 revenue increase from hedging activities of \$96.0 million (\$0.53 per mcfe).

The table below summarizes Chesapeake's key statistics during 2002 and compares them to the two prior years' results:

	Year Ended:		
	12/31/02	12/31/01	12/31/00
Average daily production (in mmcfe)	497	442	367
Gas as % of total production	89	89	86
Natural gas production (in bcf)	160.7	144.2	115.8
Average realized gas price (\$/mcf)	3.54	4.56	3.36
Oil production (in mbbbls)	3,466	2,880	3,068
Average realized oil price (\$/bbl)	25.22	26.92	26.39
Natural gas equivalent production (in bcfe)	181.5	161.5	134.2
Gas equivalent realized price (\$/mcfe)	3.61	4.56	3.50
General and administrative costs (\$/mcfe)	.10	.09	.10
Production taxes (\$/mcfe)	.17	.20	.19
Lease operating expenses (\$/mcfe)	.54	.47	.37
Interest expense (\$/mcfe)	.61	.61	.64
DD&A of oil and gas properties (\$/mcfe)	1.22	1.07	.75
Discretionary cash flow (\$ in millions)	410.2	521.6	304.9
Discretionary cash flow (\$/mcfe)	2.26	3.23	2.27
Ebitda (\$ in millions)	521.5	619.9	391.2
Ebitda (\$/mcfe)	2.87	3.84	2.92
Net income to common shareholders (\$ in millions)	30.2	215.4	453.7*

\* Includes \$265.0 million related to the reversal of a deferred tax valuation allowance recorded in the fourth quarter of 2000.

#### **Chesapeake Reports Excellent 2002 Finding Costs and Reserve Replacement Ratio; Reaches Record Level of Proved Oil and Natural Gas Reserves**

Chesapeake began 2002 with estimated proved reserves of 1,780 bcfe and ended the year with 2,205 bcfe, an increase of 425 bcfe, or 24%. Reserve replacement during the year was 606 bcfe, or 335%, at an all-in finding cost of \$1.31 per mcfe. Reserve additions through acquisitions totaled 275 bcfe at a cost of \$1.38 per mcfe (including \$0.23 per mcfe from non-cash tax basis step-ups). Reserve additions through drilling (including price and performance revisions) were 333 bcfe at a cost of \$1.21 per mcfe, for a reserve replacement ratio of 183%. Excluding revisions related to higher oil and gas prices, Chesapeake's 2002 finding costs through the drillbit were \$1.57 per mcfe. Pro forma for the ONEOK acquisition, which closed on January 31, 2003, the company's proved reserves at year-end 2002 were 2,401 bcfe.

Of the company's estimated proved reserves at year-end 2002, 74% were proved developed compared to 71% last year. In addition, 73% of this year's estimated proved reserves were prepared by outside engineers compared to 71% last year.

As of December 31, 2002, the company's estimated future net cash flows discounted at 10% before taxes (PV-10) were \$3.72 billion using field differential adjusted prices of \$30.18 per bo (from \$31.25 NYMEX) and \$4.28 per mcf (from \$4.60 NYMEX). Last year's PV-10 was \$1.65 billion using field differential adjusted prices of \$18.82 per bo (from \$19.84 NYMEX) and \$2.51 per mcf (from \$2.74 NYMEX).

### **Full Year 2003 Forecasts And Cap-Ex Budget**

Chesapeake's revised forecasts and estimates will be released tomorrow morning by press release in a new Outlook dated February 25, 2003.

### **Management Summary**

Aubrey K. McClendon, Chesapeake's Chief Executive Officer, commented, "Despite a 21% decrease in realized oil and gas prices in 2002 compared to 2001, Chesapeake posted very strong operational and financial results for the year. Our success in 2002 resulted from a series of key management decisions made during the past four years that have positioned the company to be a prime beneficiary of today's supply-constrained energy environment. These decisions involved product strategy (we favor gas over oil), geographic strategy (our focus on the Mid-Continent provides significant economies of scale and high returns on investment), business strategy (we are adept at both drilling for new reserves and acquiring existing reserves) and risk management strategy (our hedging results have been among the best in the industry).

The impact of these decisions is strongly reflected in our 2002 results and also in our four-year results from year-end 1998 through 2002. During this period, Chesapeake believes its track record of value-added growth has been one of the best in the independent exploration and production business:

Production increased from 130 bcfe in 1998 to 181 bcfe in 2002, a compound annual growth rate (CAGR) of 9%;

Proved reserves increased from 1,091 bcfe in 1998 to 2,205 bcfe in 2002, a CAGR of 19%;

Reserves were replaced at the average annual rate of 282% and finding costs averaged only \$1.04 per mcfe while adding 1,936 bcfe through acquisitions and drilling;

Ebitda increased from \$183 million in 1998 to \$521 million in 2002 and discretionary cash flow grew from \$115 million in 1998 to \$410 million in 2002, CAGRs of 30% and 37%, respectively;



Net income available to common shareholders during the four-year period totaled \$716 million and shareholders' equity increased by \$1.2 billion; and

Gains from hedging from 1998 to 2002 have exceeded \$180 million and the company's 2003 hedges have also captured historically high oil and natural gas prices.

During these four years of exceptional achievement, Chesapeake has become the largest producer of natural gas in the Mid-Continent, among the eight largest independent gas producers in the U.S. and one of the most profitable producers of natural gas in the industry per unit of production. We believe the combination of our successful product and geographic strategies, our value-added risk management strategy, our balanced acquisition and drilling programs, our high quality assets and our low operating costs will enable Chesapeake to continue delivering one of the industry's best track records of value creation in the years to come.

### Conference Call Information

Chesapeake's management invites your participation in a conference call tomorrow morning, February 25, at 9:00 a.m. EST to discuss the contents of this release. Please call 913-981-5533 between 8:50 and 9:00 a.m. EST on February 25 if you would like to participate in the call. For those unable to participate in the call, a replay will be available by calling 719-457-0820 between 12:00 p.m. EST on Tuesday, February 25 through midnight on Monday, March 10. The passcode for the replay is 720863. The conference call will also be simulcast live on the Internet and can be accessed by visiting Chesapeake's website at [www.chkenergy.com](http://www.chkenergy.com) and selecting "Conference Call" under the "Investor Relations" link.

*This document contains 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 include estimates and give our current expectations or forecasts of future events. They are based on our historical operating trends, our existing commodity hedging position and our current estimate of proved reserves. Although we believe our forward-looking statements are reasonable, they can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. For example, statements 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. Factors that could cause actual operating and financial results to differ materially from expected results include the volatility of oil and gas prices, our substantial indebtedness, our commodity price risk management activities, the cost and availability of drilling and production services, our ability to replace reserves, the availability of capital, uncertainties inherent in evaluating our own reserves and the reserves we acquire, drilling and operating risks and other risk factors described in the company's 2002 annual report on Form 10-K and subsequent filings with the Securities and Exchange Commission.*

*Chesapeake Energy Corporation is one of the 10 largest independent natural gas producers in the U.S. Headquartered in Oklahoma City, the company's operations are focused on exploratory and developmental drilling and producing property acquisitions in the Mid-Continent region of the United States. The company's Internet address is [www.chkenergy.com](http://www.chkenergy.com).*



**CHESAPEAKE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(\$ in 000 s, except per share data)

(unaudited)

THREE MONTHS ENDED:	December 31, 2002		December 31, 2001	
	\$	\$/mcf	\$	\$/mcf
<b>REVENUES:</b>				
Oil and gas sales	198,462	4.01	161,339	3.90
Risk management income (loss)	(1,023)	(0.02)	(9,926)	(0.24)
Oil and gas marketing sales	57,981	1.17	25,662	0.62
<b>Total revenues</b>	<b>255,420</b>	<b>5.16</b>	<b>177,075</b>	<b>4.28</b>
<b>OPERATING COSTS:</b>				
Production expenses	26,939	0.55	19,441	0.47
Production taxes	10,167	0.21	1,661	0.04
General and administrative	5,688	0.11	4,335	0.10
Oil and gas marketing expenses	56,900	1.15	25,036	0.61
Depreciation, depletion, and amortization of oil and gas properties	63,458	1.28	47,998	1.16
Depreciation and amortization of other assets	3,520	0.07	2,709	0.06
<b>Total operating costs</b>	<b>166,672</b>	<b>3.37</b>	<b>101,180</b>	<b>2.44</b>
<b>INCOME FROM OPERATIONS</b>	<b>88,748</b>	<b>1.79</b>	<b>75,895</b>	<b>1.84</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest and other income	(3)	(0.00)	1,493	0.03
Interest expense	(31,314)	(0.63)	(25,344)	(0.61)
Loss on investment in Seven Seas	(12,431)	(0.25)		
Impairment of investment in securities			(10,079)	(0.24)
Gain on sale of Canadian subsidiary			27,000	0.65
Loss on early extinguishment of debt	(1,273)	(0.03)		
<b>Total other income (expense)</b>	<b>(45,021)</b>	<b>(0.91)</b>	<b>(6,930)</b>	<b>(0.17)</b>
<b>Income Before Income Taxes</b>	<b>43,727</b>	<b>0.88</b>	<b>68,965</b>	<b>1.67</b>
<b>Income Tax Expense</b>	<b>17,488</b>	<b>0.35</b>	<b>26,340</b>	<b>0.64</b>
<b>NET INCOME</b>	<b>26,239</b>	<b>0.53</b>	<b>42,625</b>	<b>1.03</b>
Preferred Stock Dividends	(2,529)	(0.05)	(1,322)	(0.03)
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<b>23,710</b>	<b>0.48</b>	<b>41,303</b>	<b>1.00</b>
<b>EARNINGS PER COMMON SHARE:</b>				
Basic	\$ 0.14		\$ 0.25	
Assuming dilution	\$ 0.13		\$ 0.23	

	<u>          </u>	<u>          </u>
<b>WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:</b>		
<b>Basic</b>	170,118	164,616
	<u>          </u>	<u>          </u>
<b>Assuming dilution</b>	195,733	182,725
	<u>          </u>	<u>          </u>

**CHESAPEAKE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(\$ in 000 s, except per share data)

(unaudited)

TWELVE MONTHS ENDED:	December 31, 2002		December 31, 2001	
	\$	\$/mcf	\$	\$/mcf
<b>REVENUES:</b>				
Oil and gas sales	655,454	3.61	735,529	4.56
Risk management income (loss)	(88,018)	(0.48)	84,789	0.52
Oil and gas marketing sales	170,315	0.94	148,733	0.92
<b>Total revenues</b>	<b>737,751</b>	<b>4.07</b>	<b>969,051</b>	<b>6.00</b>
<b>OPERATING COSTS:</b>				
Production expenses	98,191	0.54	75,374	0.47
Production taxes	30,101	0.17	33,010	0.20
General and administrative	17,618	0.10	14,449	0.09
Oil and gas marketing expenses	165,736	0.91	144,373	0.89
Depreciation, depletion, and amortization of oil and gas properties	221,189	1.22	172,902	1.07
Depreciation and amortization of other assets	14,009	0.08	8,663	0.06
<b>Total operating costs</b>	<b>546,844</b>	<b>3.02</b>	<b>448,771</b>	<b>2.78</b>
<b>INCOME FROM OPERATIONS</b>	<b>190,907</b>	<b>1.05</b>	<b>520,280</b>	<b>3.22</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest and other income	7,340	0.04	2,877	0.02
Interest expense	(111,280)	(0.61)	(98,321)	(0.61)
Loss on investment in Seven Seas	(17,201)	(0.10)		
Impairment of investment in securities			(10,079)	(0.06)
Gain on sale of Canadian subsidiary			27,000	0.17
Loss on early extinguishment of debt	(2,626)	(0.01)		
Gothic standby credit facility costs			(3,392)	(0.02)
<b>Total other income (expense)</b>	<b>(123,767)</b>	<b>(0.68)</b>	<b>(81,915)</b>	<b>(0.50)</b>
<b>Income Before Income Taxes and Extraordinary Item</b>	<b>67,140</b>	<b>0.37</b>	<b>438,365</b>	<b>2.72</b>
<b>Income Tax Expense</b>	<b>26,854</b>	<b>0.15</b>	<b>174,959</b>	<b>1.09</b>
<b>NET INCOME BEFORE EXTRAORDINARY ITEM</b>	<b>40,286</b>	<b>0.22</b>	<b>263,406</b>	<b>1.63</b>
<b>EXTRAORDINARY ITEM:</b>				
Loss on early extinguishment of debt, net of applicable income tax			(46,000)	(0.28)
<b>NET INCOME</b>	<b>40,286</b>	<b>0.22</b>	<b>217,406</b>	<b>1.35</b>
Preferred Stock Dividends	(10,117)	(0.05)	(2,050)	(0.02)
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<b>30,169</b>	<b>0.17</b>	<b>215,356</b>	<b>1.33</b>

**EARNINGS PER COMMON SHARE:**

<b>Basic</b>	\$ 0.18	\$ 1.33
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<b>Assuming dilution</b>	\$ 0.17	\$ 1.25
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**WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES  
OUTSTANDING**

<b>Basic</b>	166,910	162,362
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<b>Assuming dilution<sup>(1)</sup></b>	172,714	173,981
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1. Diluted shares outstanding for the twelve months ended December 31, 2002 does not include the effect of the assumed conversion at the beginning of the period of the outstanding or converted preferred stock, as the effect was antidilutive.

**CHESAPEAKE ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in 000 s)

(unaudited)

	December 31, 2002	December 31, 2001
Cash and cash equivalents	\$ 247,719	\$ 124,960
Other current assets	187,598	236,423
<b>TOTAL CURRENT ASSETS</b>	<b>435,317</b>	<b>361,383</b>
Property and equipment (net)	2,389,884	1,785,581
Deferred tax asset	2,071	67,781
Other assets	48,336	72,023
<b>TOTAL ASSETS</b>	<b>\$ 2,875,608</b>	<b>\$ 2,286,768</b>
Current liabilities	\$ 265,552	\$ 173,381
Long term debt	1,651,198	1,329,453
Revenue and royalties due others	13,797	12,696
Long term derivative instruments	30,174	
Other long term liabilities	7,012	3,831
<b>TOTAL LIABILITIES</b>	<b>1,967,733</b>	<b>1,519,361</b>
<b>STOCKHOLDERS' EQUITY</b>	<b>907,875</b>	<b>767,407</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 2,875,608</b>	<b>\$ 2,286,768</b>
<b>COMMON SHARES OUTSTANDING</b>	<b>190,144</b>	<b>164,742</b>

**CHESAPEAKE ENERGY CORPORATION**  
**RECONCILIATION OF CERTAIN FINANCIAL MEASURES**

(in 000 s)

(unaudited)

FOR THE TWELVE MONTHS ENDED DECEMBER 31,	2002	2001	2000
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 432,531</b>	<b>&amp;nb</b>	