

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.

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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.

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

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

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NOMAC Drilling 401(k) Plan**Notes to Financial Statements****December 31, 2004 and 2003****4. Nonparticipant-directed Investments**

Investment in the Chesapeake Energy Corporation common stock includes balances arising from nonparticipant-directed employer matching contributions, as well as participant-directed contributions and transfers from other investment options. Information about the net assets and the significant components of the changes in net assets relating to investments in the Chesapeake Energy Corporation common stock is as follows:

| | 2004 | | 2003 |
|--|-------------|--|-------------|
| Net assets, beginning balance: | | | |
| Chesapeake Energy Corporation Common Stock | \$ 164,513 | | \$ - |
| Changes in net assets: | | | |
| Contributions | \$ 298,665 | | \$ 131,606 |
| Dividend income | 3,217 | | 212 |
| Net appreciation | 69,485 | | 30,473 |
| Benefits paid to participants | (28,447) | | (357) |
| Transfers from (to) other investments options, net | (24,275) | | 2,579 |
| Net increase in assets during the year | \$ 318,645 | | \$ 164,513 |
| Net assets, ending balance: | | | |
| Chesapeake Energy Corporation Common Stock | \$ 483,158 | | \$ 164,513 |

5. Party-in-interest Transactions

Certain Plan investments are shares of Chesapeake Energy Corporation common stock. These transactions represent investments in Chesapeake, and, therefore, qualify as party-in-interest transactions. Further, certain Plan investments are shares of mutual funds managed by Fidelity Investments. Fidelity Management Trust Company is the trustee as defined by the Plan, and, therefore, transactions in mutual funds managed by Fidelity Investments qualify as party-in-interest transactions. During 2004 and 2003, there were 39 and 18 purchases of the Common Stock for a total purchase price of \$203,744 and \$106,984, respectively.

6. Tax Status

The Plan received an Internal Revenue Service opinion letter dated October 9, 2003, with respect to the prototype adopted by the Plan which indicates that the Plan as designed at the date of the letter is in compliance with the applicable requirements of the Internal Revenue Code (the IRC). The Plan Administrator and the Plan's tax counsel believe the Plan is currently designed and being operated in compliance with the

applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

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NOMAC Drilling 401(k) Plan**Notes to Financial Statements****December 31, 2004 and 2003****7. Plan Termination**

Although the Company has not expressed any intent to do so, the Company reserves the right to change, amend or discontinue the Plan at any time, subject to the provisions of ERISA. In the event of discontinuance of the Plan, participants will become 100 percent vested in their accounts.

8. Concentration of Investments

As of December 31, 2004, net assets available for benefits in the amount of \$483,158 and \$305,876 were invested in Chesapeake common stock and mutual funds managed by Fidelity Investments, respectively.

9. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits as of December 31, 2004 and 2003, as reflected in the accompanying financial statements, to the Form 5500:

| | 2004 | 2003 |
|--|-------------|-------------|
| Net assets available for benefits per the financial statements | \$ 812,403 | \$ 268,746 |
| Add: Accrued administrative expenses | 10,378 | 7,823 |
| Net assets available for benefits per the Form 5500 | \$ 822,781 | \$ 276,569 |

The following is a reconciliation of administrative expenses for the period ended December 31, 2004, and for the period July 1, 2003 (Date of Inception) to December 31, 2003, as reflected in the accompanying financial statements, to the Form 5500:

| | 2004 | 2003 |
|--|-------------|-------------|
| Administrative expenses per the financial statements | \$ 10,011 | \$ 7,831 |
| Add: Previous year accrued administrative expenses | 7,823 | - |
| Less: Current year accrued administrative expenses | (10,378) | (7,823) |
| Administrative expenses per the Form 5500 | \$ 7,456 | \$ 8 |

Administrative expenses are recorded on the Form 5500 when paid.

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NOMAC Drilling 401(k) Plan**Schedule of Assets (Held at End of Year)**

December 31, 2004

Schedule 1

| Identity of Issue, Borrower, Lessor, or Similar Party | Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value | Cost | Current Value |
|--|--|------------|------------------|
| *Chesapeake Energy Corporation | Common Stock, \$0.01 par value | \$ 396,482 | \$ 483,158 |
| *Fidelity Contra Fund | Mutual Funds | ** | 2,148 |
| *Fidelity Investment Grade Bond Fund | Mutual Funds | ** | 11,196 |
| *Fidelity Independence Fund | Mutual Funds | ** | 13,682 |
| *Fidelity Low Prices Stock Fund | Mutual Funds | ** | 8,002 |
| *Fidelity Equity II Fund | Mutual Funds | ** | 5,634 |
| *Fidelity Diversified International Fund | Mutual Funds | ** | 7,829 |
| *Fidelity Dividend Growth | Mutual Funds | ** | 7,454 |
| *Fidelity Mid-Cap Stocks | Mutual Funds | ** | 11,546 |
| *Fidelity Freedom Income | Mutual Funds | ** | 7,373 |
| *Fidelity Freedom 2000 | Mutual Funds | ** | 2,320 |
| *Fidelity Freedom 2005 | Mutual Funds | ** | 404 |
| *Fidelity Freedom 2010 | Mutual Funds | ** | 49,269 |
| *Fidelity Freedom 2020 | Mutual Funds | ** | 70,507 |
| *Fidelity Freedom 2030 | Mutual Funds | ** | 38,011 |
| *Fidelity Freedom 2035 | Mutual Funds | ** | 46 |
| *Fidelity Freedom 2040 | Mutual Funds | ** | 18,881 |
| *Fidelity Retirement Money Market | Mutual Funds | ** | 41,358 |
| *Spartan US Equity Index | Mutual Funds | ** | 10,216 |
| | Interest Rates Ranging From 4.00 Percent To 10.00 Percent, Due Through June 5, 2009 | ** | 32,429 |
| | | | \$ 821,463 |

* Identifies parties-in-interest

** Identifies participant-directed investment options for which presentation of cost in the Schedule of Assets (Held at End of Year) is not required.

NOMAC Drilling 401(k) Plan

Schedule of Reportable Transactions

December 31, 2004

Schedule 2

| Description of Asset | Number of Purchases | Number of Sales | Total Purchase Price | Total Selling Price | Net Gain (Loss) |
|--|----------------------------|------------------------|-----------------------------|----------------------------|------------------------|
| *Chesapeake Energy Corporation Common Stock | 39 | | \$203,744 | | |

* Identifies parties-in-interest.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Employee Compensation and Benefits Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

NOMAC DRILLING 401(k) Plan

By: */s/ MARY WHITSON*
Mary Whitson, Plan Administrator

Date: June 24, 2005

EXHIBIT INDEX

| Exhibit | Description |
|----------------|---------------------------------------|
| 23 | Consent of PricewaterhouseCoopers LLP |

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Exhibit 23

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-118312) of NOMAC Drilling Corporation of our report dated June 24, 2005 relating to the financial statements of NOMAC Drilling 401(k) Plan, which appears in this Form 11-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Oklahoma City, Oklahoma

June 24, 2005

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