UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2007

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 1-13726

Chesapeake Energy Corporation
(Exact Name of Registrant as Specified in Its Charter)

Oklahoma	**73-1395733**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6100 North Western Avenue **Oklahoma City, Oklahoma**	**73118**
(Address of principal executive offices)	**(Zip Code)**

(405) 848-8000
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.01	New York Stock Exchange
7.5% Senior Notes due 2013	New York Stock Exchange
7.625% Senior Notes due 2013	New York Stock Exchange
7.0% Senior Notes due 2014	New York Stock Exchange
7.5% Senior Notes due 2014	New York Stock Exchange
6.375% Senior Notes due 2015	New York Stock Exchange
7.75% Senior Notes due 2015	New York Stock Exchange
6.625% Senior Notes due 2016	New York Stock Exchange
6.875% Senior Notes due 2016	New York Stock Exchange
6.5% Senior Notes due 2017	New York Stock Exchange
6.25% Senior Notes due 2018	New York Stock Exchange
6.875% Senior Notes due 2020	New York Stock Exchange
2.75% Contingent Convertible Senior Notes due 2035	New York Stock Exchange
2.5% Contingent Convertible Senior Notes due 2037	New York Stock Exchange
4.5% Cumulative Convertible Preferred Stock	New York Stock Exchange
6.25% Mandatory Convertible Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES ☐ NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer, "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of our common stock held by non-affiliates on June 29, 2007 was approximately $12.1 billion. At February 26, 2008, there were 514,009,781 shares of our $0.01 par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2008 Annual Meeting of Shareholders are incorporated by reference in Part III.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

2007 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1. *Business*

General

We are the third largest independent producer of natural gas in the United States (first among independents). We own interests in approximately 38,500 producing oil and natural gas wells that are currently producing approximately 2.2 billion cubic feet equivalent, or bcfe, per day, 92% of which is natural gas. Our strategy is focused on discovering, acquiring and developing conventional and unconventional natural gas reserves onshore in the U.S., east of the Rocky Mountains.

Our most important operating area has historically been the *Mid-Continent region* of Oklahoma, Arkansas, southwestern Kansas and the Texas Panhandle. At December 31, 2007, 47% of our estimated proved oil and natural gas reserves were located in the Mid-Continent region. During the past five years, we have also built significant positions in various conventional and unconventional plays in the *Fort Worth Basin* in north-central Texas; the *Appalachian Basin*, principally in West Virginia, eastern Kentucky, eastern Ohio, Pennsylvania and southern New York; the *Permian and Delaware Basins* of West Texas and eastern New Mexico; the *Ark-La-Tex* area of East Texas and northern Louisiana; and the *South Texas and Texas Gulf Coast regions*. We have established a top-three position in nearly every major unconventional play onshore in the U.S. east of the Rockies, including the Barnett Shale, the Arkansas Fayetteville Shale, the Appalachian Basin Devonian and Marcellus Shales, the Arkoma and Ardmore Basin Woodford Shale in Oklahoma, the Delaware Basin Barnett and Woodford Shales in West Texas, and the Alabama Conasauga and Chattanooga Shales.

As of December 31, 2007, we had 10.879 trillion cubic feet equivalent, or tcfe, of proved reserves, of which 93% were natural gas and all of which were onshore. During 2007, we produced an average of 1.957 bcfe per day, a 23% increase over the 1.585 bcfe per day produced in 2006. We replaced our 714 bcfe of production with an internally estimated 2.637 tcfe of new proved reserves for a reserve replacement rate of 369%. Reserve replacement through the drillbit was 2.468 tcfe, or 346% of production (including 1.248 tcfe of positive performance revisions, of which 1.207 tcfe relates to infill drilling and increased density locations, and 97 bcfe of positive revisions resulting from oil and natural gas price increases between December 31, 2006 and December 31, 2007), and reserve replacement through acquisitions was 377 bcfe, or 53% of production. During 2007, we divested 208 bcfe of proved reserves. As a result, our proved reserves grew by 21% during 2007, from 9.0 tcfe to 10.9 tcfe. Of our 10.9 tcfe of proved reserves, 64% were proved developed reserves.

During 2007, Chesapeake continued the industry's most active drilling program and drilled 1,992 gross (1,695 net) operated wells and participated in another 1,679 gross (224 net) wells operated by other companies. The company's drilling success rate was 99% for company-operated wells and 97% for non-operated wells. Also during 2007, we invested $4.3 billion in operated wells (using an average of 140 operated rigs) and $708 million in non-operated wells (using an average of 105 non-operated rigs). Total costs incurred in oil and natural gas acquisition, exploration and development activities during 2007, including seismic, unproved properties, leasehold, capitalized interest and internal costs, non-cash tax basis step-up and asset retirement obligations, were $7.6 billion.

Our principal executive offices are located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118 and our main telephone number at that location is (405) 848-8000. We make available free of charge on our website at *www.chk.com* our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. References to "us", "we" and "our" in this report refer to Chesapeake Energy Corporation together with its subsidiaries.

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 the past ten years, our strategy to accomplish this goal has been to focus onshore in the U.S. east of the Rockies, where we believe we can generate the most attractive risk adjusted returns. In building our industry-leading resource base during the period from 1998 to 2007, we integrated an aggressive and technologically-advanced drilling program with an active property consolidation program focused on small to medium-sized corporate and property acquisitions. During the past two years, we have shifted our strategy from drilling inventory capture to drilling inventory conversion. In doing so, we have de-emphasized acquisitions of proved properties while further emphasizing our industry-leading drilling program and converting our substantial backlog of drilling opportunities into proved developed producing reserves. Key elements of this business strategy are further explained below.

Grow through the Drillbit. We believe that our most distinctive characteristic is our commitment and ability to grow production and reserves through the drillbit. We are currently utilizing 138 operated drilling rigs and 77 non-operated drilling rigs to conduct the most active drilling program in the U.S. We are active in most of the unconventional plays in the U.S. east of the Rockies, where we drill more horizontal wells than any other company in the industry. For the past ten years, we have been actively investing in leasehold, 3-D seismic information and human capital to take advantage of the favorable drilling economics that exist today. We are one of the few large-cap independent oil and natural gas companies that have been able to consistently increase production, which we have successfully achieved for the past 18 consecutive years and 26 consecutive quarters. We believe the key elements of the success and scale of our drilling programs have been our recognition earlier than most of our competitors that (i) oil and natural gas prices were likely to move structurally higher for an extended period, (ii) new horizontal drilling and completion techniques would enable development of previously uneconomic natural gas reservoirs and (iii) various shale formations could be recognized and developed as potentially prolific natural gas reservoirs rather than just as sources of natural gas. In response to our early recognition of these trends, we have proactively hired thousands of new employees and have built the nation's largest onshore leasehold and 3-D seismic inventories, the building blocks of a successful large-scale drilling program and the foundation of value creation in our industry.

Control Substantial Land and Drilling Location Inventories. After we identified the trends discussed above, we initiated a plan to build and maintain the largest inventory of onshore drilling opportunities in the U.S. Anticipating an increase in commodity prices and recognizing that better horizontal drilling and completion technologies when applied to various new shale plays would likely create a unique opportunity to capture decades worth of drilling opportunities, we embarked on a very aggressive lease acquisition program which we have referred to as the "land grab". We believed that the winner of the "land grab" would enjoy a distinctive competitive advantage for decades to come as other companies would be locked out of the best new shale plays in the U.S. We believe that we have executed our "land grab" strategy with particular distinction. We now own approximately 13 million net acres of leasehold in the U.S. and have identified more than 36,300 drilling opportunities on this leasehold. We believe this deep backlog of drilling, more than ten years worth at current drilling levels, provides unusual confidence and transparency into our future growth capabilities.

Develop Proprietary Technological Advantages. In addition to our industry-leading leasehold position, we have developed a number of proprietary technological advantages. First, we have acquired what we believe is the nation's largest inventory of three-dimensional (3-D) seismic information. Possessing this 3-D inventory enables us to image deep reservoirs of natural gas that might otherwise remain undiscovered and to drill our horizontal wells more accurately inside the targeted shale formation. In addition, we have developed an industry-leading information-gathering program that gives us proprietary insights into new plays and competitor activity. As a result of our initiatives, we now produce approximately 4% of the nation's natural gas, drill 8% of its wells and participate in almost an equal number of wells drilled by others. Consequently, we believe that we receive drilling information on 20-25% of the wells drilled in areas in which we are focused. By gathering this information on a real-time basis, then quickly assimilating and analyzing the information, we are able to react quickly to opportunities that are created through our drilling program and those of our competitors. Finally, we have recently constructed a unique state-of-the-art Reservoir Technology Center (RTC) in Oklahoma City. The RTC enables us to more quickly, accurately and confidentially analyze core data from shale wells and then design fracture stimulation procedures that are designed to work most productively in the shale formations that have been analyzed. We believe the RTC provides a very substantial competitive advantage in developing new shale plays and improving existing shale plays.

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 superior geoscientific and engineering information, 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 region ten years ago 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 Mountains in current 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 approximately 98% over the past 18 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 the other areas where we operate possess many of these same favorable characteristics, and our goal is to become or remain a top three natural gas producer in each of our operating areas.

Focus on Low Costs. By minimizing lease operating costs and general and administrative expenses 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, extensive and competitive services and natural gas processing and transportation infrastructures that exist in our key operating areas. In addition, to control costs and service quality, we have made significant investments in our drilling rig and trucking service operations and in our midstream gathering and compression operations. As of December 31, 2007, we operated approximately 22,400 of our 38,500 wells, which delivered approximately 85% of our daily production volume. This large percentage of operated properties provides us with a high degree of operating flexibility and cost control.

Mitigate Commodity Price Risk. We have used and intend to continue using hedging programs to seek to mitigate the risks inherent in developing 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. As of February 21, 2008, we have oil hedges in place covering 94% and 97% of our expected oil production in 2008 and 2009, respectively, and 87% and 54% of our expected natural gas production in 2008 and 2009, respectively, thereby providing price certainty for a substantial portion of our future cash flow.

Maintain an Entrepreneurial Culture. Chesapeake was formed 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 largest independent producer of natural gas in the U.S. with 6,400 employees currently and an enterprise value of approximately $36 billion. The company takes pride in its innovative and aggressive implementation of its business strategy and strives to be as entrepreneurial today as it has been in its past. We have maintained an unusually flat organizational structure as we have grown to help ensure that important information travels rapidly through the company and decisions are made and implemented quickly. Our chief executive officer and co-founder, Aubrey K. McClendon, has been in the oil and natural gas industry for 27 years and beneficially owns, as of February 29, 2008, approximately 28.4 million shares of our common stock.

Improve our Balance Sheet. We have made significant progress in improving our balance sheet over the past nine years. From December 31, 1998 through December 31, 2007, we increased our stockholders' equity by $12.4 billion through a combination of earnings and common and preferred equity issuances. As of December 31, 2007, our debt as a percentage of total capitalization (total capitalization is the sum of debt and stockholders' equity) was 47%, compared to 137% as of December 31, 1998.

Outlook

We believe that demand for natural gas will continue to increase in the U.S. and around the world as a result of its favorable environmental characteristics and relative abundance, especially when compared to oil, which is in increasingly short supply, and to coal, which has many unfavorable environmental characteristics. Chesapeake's strategy for 2008 is to continue developing our natural gas assets through exploratory and developmental drilling and by selectively acquiring strategic properties in the Mid-Continent and in our other operating areas. We project that our 2008 production will be between 851 bcfe and 861 bcfe, a 19% to 21% increase over 2007 production. We have budgeted $5.9 billion to $6.5 billion for drilling, acreage acquisition, seismic and related capitalized internal costs, which is expected to be funded with operating cash flow based on our current assumptions, our 2008-2009 financial plan and borrowings under our revolving bank credit facility. Our budget is frequently adjusted based on changes in oil and natural gas prices, drilling results, drilling costs and other factors.

Operating Areas

Chesapeake focuses its natural gas exploration, development and acquisition efforts in the six operating areas described below.

Mid-Continent. Chesapeake's Mid-Continent proved reserves of 5.122 tcfe represented 47% of our total proved reserves as of December 31, 2007, and this area produced 374 bcfe, or 52%, of our 2007 production. During 2007, we invested approximately $2.1 billion to drill 2,126 (785 net) wells in the Mid-Continent. For 2008, we anticipate spending approximately 38% of our total budget for exploration and development activities in the Mid-Continent region.

Barnett Shale. Chesapeake's Barnett Shale proved reserves represented 2.063 tcfe, or 19%, of our total proved reserves as of December 31, 2007. During 2007, the Barnett Shale assets produced 93 bcfe, or 13%, of our total production. During 2007, we invested approximately $1.3 billion to drill 512 (410 net) wells in the Barnett Shale. For 2008, we anticipate spending approximately 35% of our total budget for exploration and development activities in the Barnett Shale.

Appalachian Basin. Chesapeake's Appalachian Basin proved reserves represented 1.404 tcfe, or 13%, of our total proved reserves as of December 31, 2007. During 2007, the Appalachian assets produced 48 bcfe, or 7%, of our total production. During 2007, we invested approximately $344 million to drill 431 (374 net) wells in the Appalachian Basin. For 2008, we anticipate spending approximately 5% of our total budget for exploration and development activities in the Appalachian Basin.

Permian and Delaware Basins. Chesapeake's Permian and Delaware Basin proved reserves represented 990 bcfe, or 9%, of our total proved reserves as of December 31, 2007. During 2007, the Permian assets produced 65 bcfe, or 9%, of our total production. During 2007, we invested approximately $813 million to drill 253 (107 net) wells in the Permian and Delaware Basins. For 2008, we anticipate spending approximately 12% of our total budget for exploration and development activities in the Permian and Delaware Basins.

Ark-La-Tex. Chesapeake's Ark-La-Tex proved reserves represented 695 bcfe, or 6%, of our total proved reserves as of December 31, 2007. During 2007, the Ark-La-Tex assets produced 56 bcfe, or 8%, of our total production. During 2007, we invested approximately $556 million to drill 259 (176 net) wells in the Ark-La-Tex region. For 2008, we anticipate spending approximately 4% of our total budget for exploration and development activities in the Ark-La-Tex area.

South Texas and Texas Gulf Coast. Chesapeake's South Texas and Texas Gulf Coast proved reserves represented 605 bcfe, or 6%, of our total proved reserves as of December 31, 2007. During 2007, the South Texas and Texas Gulf Coast assets produced 78 bcfe, or 11%, of our total production. For 2007, we invested approximately $315 million to drill 90 (67 net) wells in the South Texas and Texas Gulf Coast regions. For 2008, we anticipate spending approximately 6% of our total budget for exploration and development activities in the South Texas and Texas Gulf Coast regions.

Drilling Activity

The following table sets forth the wells we drilled during the periods indicated. In the table, "gross" refers to the total wells in which we had a working interest and "net" refers to gross wells multiplied by our working interest.

	2007				2006				2005			
	Gross	Percent	Net	Percent	Gross	Percent	Net	Percent	Gross	Percent	Net	Percent
Development:												
Productive	3,439	98%	1,792	99%	2,844	98%	1,364	99%	1,736	97%	735	97%
Non-productive	53	2	10	1	47	2	13	1	51	3	21	3
Total	3,492	100%	1,802	100%	2,891	100%	1,377	100%	1,787	100%	756	100%
Exploratory:												
Productive	177	99%	116	99%	128	98%	71	99%	177	98%	57	95%
Non-productive	2	1	1	1	3	2	1	1	4	2	3	5
Total	179	100%	117	100%	131	100%	72	100%	181	100%	60	100%

The following table shows the wells we drilled by area:

	2007		2006		2005	
	Gross Wells	Net Wells	Gross Wells	Net Wells	Gross Wells	Net Wells
Mid-Continent	2,126	785	1,884	621	1,442	498
Barnett Shale	512	410	244	187	—	—
Appalachian Basin	431	374	319	272	15	11
Permian and Delaware Basins	253	107	189	92	139	56
Ark-La-Tex	259	176	248	175	257	171
South Texas and Texas Gulf Coast	90	67	138	102	115	80
Total	3,671	1,919	3,022	1,449	1,968	816

At December 31, 2007, we had 289 (132 net) wells in process.

Well Data

At December 31, 2007, we had interests in approximately 38,500 (21,404 net) producing wells, including properties in which we held an overriding royalty interest, of which 6,900 (3,832 net) were classified as primarily oil producing wells and 31,600 (17,572 net) were classified as primarily natural gas producing wells. Chesapeake operates approximately 22,400 of its 38,500 producing wells. During 2007, we drilled 1,992 (1,695 net) wells and participated in another 1,679 (224 net) wells operated by other companies. We operate approximately 85% of our current daily production volumes.

Production, Sales, Prices and Expenses

The following table sets forth information regarding the production volumes, oil and natural gas sales, average sales prices received, other operating income and expenses for the periods indicated:

	Years Ended December 31,		
	2007	2006	2005
Net Production:			
Oil (mbbls)	9,882	8,654	7,698
Natural gas (mmcf)	654,969	526,459	422,389
Natural gas equivalent (mmcfe)	714,261	578,383	468,577
Oil and Natural Gas Sales ($ in millions):			
Oil sales	$ 678	$ 527	$ 402
Oil derivatives—realized gains (losses)	(11)	(15)	(34)
Oil derivatives—unrealized gains (losses)	(235)	28	4
Total oil sales	432	540	372
Natural gas sales	4,117	3,343	3,231
Natural gas derivatives—realized gains (losses)	1,214	1,269	(367)
Natural gas derivatives—unrealized gains (losses)	(139)	467	37
Total natural gas sales	5,192	5,079	2,901
Total oil and natural gas sales	$ 5,624	$ 5,619	$ 3,273
Average Sales Price (excluding gains (losses) on derivatives):			
Oil ($ per bbl)	$ 68.64	$ 60.86	$ 52.20
Natural gas ($ per mcf)	$ 6.29	$ 6.35	$ 7.65
Natural gas equivalent ($ per mcfe)	$ 6.71	$ 6.69	$ 7.75
Average Sales Price (excluding unrealized gains (losses) on derivatives):			
Oil ($ per bbl)	$ 67.50	$ 59.14	$ 47.77
Natural gas ($ per mcf)	$ 8.14	$ 8.76	$ 6.78
Natural gas equivalent ($ per mcfe)	$ 8.40	$ 8.86	$ 6.90
Other Operating Income ($ per mcfe):			
Oil and natural gas marketing	$ 0.10	$ 0.09	$ 0.07
Service operations	$ 0.06	$ 0.11	$ —
Expenses ($ per mcfe):			
Production expenses	$ 0.90	$ 0.85	$ 0.68
Production taxes	$ 0.30	$ 0.31	$ 0.44
General and administrative expenses	$ 0.34	$ 0.24	$ 0.14
Oil and natural gas depreciation, depletion and amortization	$ 2.57	$ 2.35	$ 1.91
Depreciation and amortization of other assets	$ 0.22	$ 0.18	$ 0.11
Interest expense (a)	$ 0.51	$ 0.52	$ 0.47

(a) Includes the effects of realized gains or (losses) from interest rate derivatives, but does not include the effects of unrealized gains or (losses) and is net of amounts capitalized.

Oil and Natural Gas Reserves

The tables below set forth information as of December 31, 2007 with respect to our estimated proved reserves, the associated estimated future net revenue and present value (discounted at an annual rate of 10%) of estimated future net revenue before and after income tax (standardized measure) at such date. Neither the pre-tax present value of estimated future net revenue nor the after-tax standardized measure is intended to represent the current market value of the estimated oil and natural gas reserves we own.

	December 31, 2007		
	Oil (mbbl)	Gas (mmcf)	Total (mmcfe)
Proved developed	88,834	6,408,622	6,941,626
Proved undeveloped	34,720	3,728,677	3,936,997
Total proved	123,554	10,137,299	10,878,623

	Proved Developed	Proved Undeveloped	Total Proved
		($ in millions)	
Estimated future net revenue (a)	$ 33,523	$ 12,798	$ 46,321
Present value of estimated future net revenue (a)	$ 16,621	$ 3,952	$ 20,573
Standardized measure (a)(b)			$ 14,962

	Oil (mbbl)	Gas (mmcf)	Gas Equivalent (mmcfe)	Percent of Proved Reserves	Present Value ($ in millions)
Mid-Continent	66,256	4,723,987	5,121,522	47%	$ 11,050
Barnett Shale	102	2,062,476	2,063,091	19	2,969
Appalachian Basin	1,491	1,394,635	1,403,579	13	1,260
Permian and Delaware Basins	47,146	707,426	990,303	9	2,548
Ark-La-Tex	4,319	669,384	695,300	6	1,155
South Texas and Texas Gulf Coast	4,240	579,391	604,828	6	1,591
Total	123,554	10,137,299	10,878,623	100%	$ 20,573(a)

(a) Estimated future net revenue represents the estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs in effect at December 31, 2007. The prices used in our external and internal reserve reports yield weighted average wellhead prices of $90.58 per barrel of oil and $6.19 per mcf of natural gas. These prices should not be interpreted as a prediction of future prices, nor do they reflect the value of our commodity hedges in place at December 31, 2007. The amounts shown do not give effect to non-property related expenses, such as corporate general and administrative expenses and debt service, or to depreciation, depletion and amortization. Estimated future net revenue and the present value thereof differ from future net cash flows and the standardized measure thereof only because the former do not include the effects of estimated future income tax expenses ($5.6 billion as of December 31, 2007).

Management uses future net revenue, which is calculated without deducting estimated future income tax expenses, and the present value thereof as one measure of the value of the company's current proved reserves and to compare relative values among peer companies without regard to income taxes. We also understand that securities analysts and rating agencies use this measure in similar ways. While future net revenue and present value are based on prices, costs and discount factors which are consistent from company to company, the standardized measure of discounted future net cash flows is dependent on the unique tax situation of each individual company.

(b) The standardized measure of discounted future net cash flows is calculated in accordance with SFAS 69. Additional information on the standardized measure is presented in Note 11 of the notes to our consolidated financial statements included in Item 8 of this report.

As of December 31, 2007, our reserve estimates included 3.937 tcfe of reserves classified as proved undeveloped (PUD). Of this amount, approximately 32%, 23% and 25% (by volume) were initially classified as PUDs in 2007, 2006 and 2005, respectively, and the remaining 20% were initially classified as PUDs prior to 2005. Of our proved developed reserves, 904 bcfe are non-producing, which are primarily "behind pipe" zones in producing wells.

The future net revenue attributable to our estimated proved undeveloped reserves of $12.8 billion at December 31, 2007, and the $4.0 billion present value thereof, have been calculated assuming that we will expend approximately $7.3 billion to develop these reserves. We have projected to incur $2.6 billion in 2008, $2.0 billion in 2009, $1.0 billion in 2010 and $1.7 billion in 2011 and beyond, although the amount and timing of these expenditures will depend on a number of factors, including actual drilling results, service costs, product prices and the availability of capital. Chesapeake's developmental drilling schedules are subject to revision and reprioritization throughout the year, resulting from unknowable factors such as the relative success in an individual developmental drilling prospect leading to an additional drilling opportunity, rig availability, title issues or delays, and the effect that acquisitions may have on prioritizing development drilling plans. We do not believe any of these proved undeveloped reserves are contingent upon installation of additional infrastructure and we are not subject to regulatory approval other than routine permits to drill, which we expect to obtain in the normal course of business.

Chesapeake employed third-party engineers to prepare independent reserve forecasts for approximately 79% of our proved reserves (by volume) at year-end 2007. These are not audits or reviews of internally prepared reserve reports. The estimates of the proved reserves evaluated by third-party engineers were within 99% of the company's own estimates and were used instead of our estimates for booking purposes. The estimates prepared by the independent firms covered approximately 23,000 properties, or 45% of the 50,700 properties included in the 2007 reserve reports. Because, in management's opinion, it would be cost prohibitive for third-party engineers to evaluate all of our wells, we have prepared internal reserve forecasts for approximately 21% of our proved reserves. All estimates were prepared based upon a review of production histories and other geologic, economic, ownership and engineering data we developed. The estimates are not based on any single significant assumption due to the diverse nature of the reserves and there is no significant concentration of proved reserves volume or value in any one well or field. The portion of our estimated proved reserves evaluated by each of our third-party engineering firms as of December 31, 2007 is presented below.

	% Evaluated (by Volume)	Principal Properties Evaluated
Netherland, Sewell & Associates, Inc.	34%	Permian and Delaware Basins, Barnett Shale, portions of Ark-La-Tex, portions of Mid-Continent
Data and Consulting Services, Division of Schlumberger Technology Corporation	12%	Appalachian Basin
Lee Keeling and Associates, Inc.	11%	Portions of Mid-Continent, portions of South Texas/Texas Gulf Coast
Ryder Scott Company, L.P.	11%	Portions of Mid-Continent, portions of South Texas/Texas Gulf Coast
LaRoche Petroleum Consultants, Ltd.	11%	Portions of Mid-Continent, portions of Ark-La-Tex

No estimates of proved reserves comparable to those included herein have been included in reports to any federal agency other than the Securities and Exchange Commission.

Chesapeake's ownership interest used in calculating proved reserves and the associated estimated future net revenue was determined after giving effect to the assumed maximum participation by other parties to our farmout and participation agreements. The prices used in calculating the estimated future net revenue attributable to proved reserves do not reflect market prices for oil and natural gas production sold subsequent to December 31, 2007. There can be no assurance that all of the estimated proved reserves will be produced and sold at the assumed prices.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond Chesapeake's control. The reserve data represent only estimates. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates made by different engineers often vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimates, and such revisions may be material. Accordingly, reserve estimates are often different from the actual quantities of oil and natural gas that are ultimately recovered. Furthermore, the estimated future net revenue from proved reserves and the associated present value are based upon certain assumptions, including prices, future production levels and costs that may not prove correct. Future prices and costs may be materially higher or lower than the prices and costs as of the date of any estimate. A change in price of $0.10 per mcf for natural gas and $1.00 per barrel for oil would result in a change in the December 31, 2007 present value of estimated future net revenue of our proved reserves of approximately $390 million and $56 million, respectively. The estimated future net revenue used in this analysis does not include the effects of future income taxes or hedging. The foregoing uncertainties are particularly true as to proved undeveloped reserves, which are inherently less certain than proved developed reserves and which comprise a significant portion of our proved reserves.

The company's estimated proved reserves and the standardized measure of discounted future net cash flows of the proved reserves at December 31, 2007, 2006 and 2005, and the changes in quantities and standardized measure of such reserves for each of the three years then ended, are shown in Note 11 of the notes to the consolidated financial statements included in Item 8 of this report.

Development, Exploration, Acquisition and Divestiture Activities

The following table sets forth historical cost information regarding our development, exploration, acquisition and divestiture activities during the periods indicated:

	December 31, 2007	2006	2005
	($ in millions)		
Development and exploration costs:			
Development drilling (a)	$ 4,402	$2,772	$1,567
Exploratory drilling	653	349	253
Geological and geophysical costs (b)	343	154	71
Asset retirement obligation and other	29	23	52
Total	5,427	3,298	1,943
Acquisition costs:			
Proved properties	671	1,175	3,554
Unproved properties (c)	2,465	3,473	1,667
Deferred income taxes	131	180	252
Total	3,267	4,828	5,473
Sales of oil and natural gas properties	(1,142)	—	(9)
Total	$ 7,552	$8,126	$7,407

(a) Includes capitalized internal cost of $243 million, $147 million and $94 million, respectively.
(b) Includes capitalized internal cost of $19 million, $13 million and $8 million, respectively.
(c) Includes costs to acquire new leasehold, unproved properties and related capitalized interest.

Our development costs included $1.5 billion, $1.2 billion and $671 million in 2007, 2006 and 2005, respectively, related to properties carried as proved undeveloped locations in the prior year's reserve reports.

A summary of our exploration and development, acquisition and divestiture activities in 2007 by operating area is as follows:

	Gross Wells Drilled	Net Wells Drilled	Exploration and Development	Acquisition of Unproved Properties	Acquisition of Proved Properties (a)	Sales of Properties	Total
				($ in millions)			
Mid-Continent	2,126	785	$ 2,140	$ 1,038	$ 538	$ —	$3,716
Barnett Shale	512	410	1,259	681	6	—	1,946
Appalachian Basin	431	374	344	149	9	(1,142)	(640)
Permian and Delaware Basins	253	107	813	422	170	—	1,405
Ark-La-Tex	259	176	556	138	43	—	737
South Texas and Texas Gulf Coast	90	67	315	37	36	—	388
Total	3,671	1,919	$ 5,427	$ 2,465	$ 802	$ (1,142)	$7,552

(a) Includes $131 million of deferred tax adjustments.

Acreage

The following table sets forth as of December 31, 2007 the gross and net acres of both developed and undeveloped oil and natural gas leases which we hold. "Gross" acres are the total number of acres in which we own a working interest. "Net" acres refer to gross acres multiplied by our fractional working interest. Acreage numbers do not include our options to acquire additional leasehold which have not been exercised.

	Developed		Undeveloped		Total	
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
Mid-Continent	4,266,308	2,091,034	5,270,933	2,755,286	9,537,241	4,846,320
Barnett Shale	88,992	75,040	231,906	166,384	320,898	241,424
Appalachian Basin	522,591	522,591	4,474,155	4,027,473	4,996,746	4,550,064
Permian and Delaware Basins	361,339	202,990	2,968,378	1,819,598	3,329,717	2,022,588
Ark-La-Tex	266,538	162,268	1,302,267	729,427	1,568,805	891,695
South Texas and Texas Gulf Coast	341,591	204,137	234,036	167,935	575,627	372,072
Total	5,847,359	3,258,060	14,481,675	9,666,103	20,329,034	12,924,163

Marketing

Chesapeake Energy Marketing, Inc., a wholly owned subsidiary of Chesapeake Energy Corporation, provides marketing services including commodity price structuring, contract administration and nomination services for Chesapeake and its partners. We attempt to enhance the value of our natural gas production by aggregating natural gas to be sold to natural gas marketers and pipelines. This aggregation allows us to attract larger, creditworthy customers that in turn assist in maximizing the prices received for our production.

Our oil production is generally sold under market sensitive or spot price contracts. The revenue we receive from the sale of natural gas liquids is included in oil sales. Our natural gas production is sold to purchasers under percentage-of-proceeds contracts, percentage-of-index contracts or spot price contracts. By the terms of the percentage-of-proceeds contracts, we receive a percentage of the resale price received by the purchaser for sales of residue gas and natural gas liquids recovered after transportation and processing of our natural gas. These purchasers sell the residue gas and natural gas liquids based primarily on spot market prices. Under percentage-of-index contracts, the price per mmbtu we receive for our natural gas is tied to indexes published in *Inside FERC* or *Gas Daily*. Although exact percentages vary daily, as of February 2008, approximately 80% of our natural gas production was sold under short-term contracts at market-sensitive prices.

During 2007, sales to Eagle Energy Partners I, L.P. (Eagle) of $1.1 billion accounted for 15% of our total revenues (excluding gains (losses) on derivatives). In 2007, we sold our 33% limited partnership interest in Eagle Energy Partners I, L.P., which we first acquired in 2003, for proceeds of $124 million and a gain of $83 million. Management believes that the loss of this customer would not have a material adverse effect on our results of operations or our financial position. No other customer accounted for more than 10% of total revenues (excluding gains (losses) on derivatives) in 2007.

Chesapeake Energy Marketing, Inc. is a reportable segment under SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information.* See Note 8 of the notes to our consolidated financial statements in Item 8.

Natural Gas Gathering

Chesapeake invests in gathering and processing facilities to complement our oil and natural gas operations in regions where we have significant production. By doing so, we are better able to manage the value received for and the costs of, gathering, treating and processing natural gas through our ownership and operation of these facilities. We own and operate gathering systems in 13 states throughout the Mid-Continent and Appalachian regions. These systems are designed primarily to gather company production for delivery into major intrastate or interstate pipelines and are comprised of approximately 8,900 miles of gathering lines, treating facilities and processing facilities which provide service to approximately 11,000 wells.

We are currently in the process of forming a private partnership to own a non-operating interest in our midstream natural gas assets outside of Appalachia, which consist primarily of natural gas gathering systems and processing assets. We anticipate raising $1 billion for a minority interest in the partnership and closing the transaction in the first half of 2008.

Drilling

Securing available rigs is an integral part of the exploration process and therefore owning our own drilling company is a strategic advantage for Chesapeake. In 2001, Chesapeake formed its 100% owned drilling rig subsidiary, Nomac Drilling Corporation, with an investment of $26 million to build and refurbish five drilling rigs. As of December 31, 2007, Chesapeake had invested approximately $675 million to build or acquire 80 drilling rigs and to initiate the construction of one additional rig. During 2006 and 2007, we sold 78 rigs for $613 million and subsequently leased back the rigs through 2017. The drilling rigs have depth ratings between 3,000 and 25,000 feet and range in drilling horsepower from 350 to 2,000. These drilling rigs are currently operating in Oklahoma, Texas, Arkansas, Louisiana and Appalachia. The company's drilling rig fleet should reach 84 rigs by mid-year 2008, which would rank Chesapeake as the fifth largest drilling rig contractor in the U.S.

Trucking

In 2006, Chesapeake expanded its service operations by acquiring two privately-owned oilfield trucking service companies. We now own one of the largest oilfield and heavy haul transportation companies in the industry. Our trucking business is utilized primarily to transport drilling rigs for both Chesapeake and third parties. Through this ownership we are better able to manage the movement of our rigs. As of December 31, 2007, our fleet included 178 trucks and 13 cranes which mainly service the Mid-Continent, Barnett Shale and Appalachian regions.

Compression

During the past few years Chesapeake has expanded its compression business. Our wholly-owned subsidiary, MidCon Compression, L.L.C., operates wellhead and system compressors to facilitate the transportation of our natural gas production. In a series of transactions in 2007, MidCon sold a significant portion of its compressor fleet, consisting of 1,199 compressors, for $188 million and entered into a master lease agreement. These transactions were recorded as sales and operating leasebacks. Over the next 18 months, 365 new compressors are on order for $175 million, and we intend to simultaneously enter into sale/leaseback transactions with a financial counterparty as the compressors are delivered.

Hedging Activities

We utilize hedging strategies to hedge the price of a portion of our future oil and natural gas production and to manage interest rate exposure. See Item 7A-Quantitative and Qualitative Disclosures About Market Risk.

Regulation

General. All of our operations are conducted onshore in the United States. The U.S. oil and natural gas industry is regulated at the federal, state and local levels, and some of the laws, rules and regulations that govern our operations carry substantial penalties for noncompliance. These regulatory burdens increase our cost of doing business and, consequently, affect our profitability.

Regulation of Oil and Natural Gas Operations. Our exploration and production operations are subject to various types of regulation at the U.S. federal, state and local levels. Such regulation includes requirements for permits to drill and to conduct other operations and for provision of financial assurances (such as bonds) covering drilling and well operations. Very few of our oil and natural gas leases are located on federal lands. Other activities subject to regulation are:

- the location of wells,
- the method of drilling and completing wells,
- the surface use and restoration of properties upon which wells are drilled,
- the plugging and abandoning of wells,
- the disposal of fluids used or other wastes generated in connection with operations,
- the marketing, transportation and reporting of production, and
- the valuation and payment of royalties.

Our operations are also subject to various conservation regulations. These include the regulation of the size of drilling and spacing units (regarding the density of wells that may be drilled in a particular area) and the unitization or pooling of oil and natural gas properties. In this regard, some states, such as Oklahoma, allow the forced pooling or integration of tracts to facilitate exploration, while other states, such as Texas and New Mexico, rely on voluntary pooling of lands and leases. In areas where pooling is voluntary, it may be more difficult to form units and, therefore, more difficult to fully develop a project if the operator owns less than 100% of the leasehold. In addition, state conservation laws establish maximum rates of production from oil and natural gas wells, generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production. The effect of these regulations is to limit the amount of oil and natural gas we can produce and to limit the number of wells and the locations at which we can drill.

Chesapeake operates a number of natural gas gathering systems. The U.S. Department of Transportation and certain state agencies regulate the safety and operating aspects of the transportation and storage activities of these facilities. There is currently no price regulation of the company’s sales of oil, natural gas liquids and natural gas, although, governmental agencies may elect in the future to regulate certain sales.

We do not anticipate that compliance with existing laws and regulations governing exploration, production and natural gas gathering will have a material adverse effect upon our capital expenditures, earnings or competitive position.

Environmental, Health and Safety Regulation. The business operations of the company and its ownership and operation of real property are subject to various federal, state and local environmental, health and safety laws and regulations pertaining to the discharge of materials into the environment, the generation, storage, transportation, handling and disposal of materials (including solid and hazardous wastes), the safety of employees, or otherwise relating to pollution, preservation, remediation or protection of human health and safety, natural resources, wildlife or the environment. We must take into account the cost of complying with environmental regulations in planning, designing, constructing, drilling, operating and abandoning wells and related surface facilities. In most instances, the regulatory frameworks relate to the handling of drilling and production materials, the disposal of drilling and production wastes, and the protection of water and air. In addition, our operations may require us to obtain permits for, among other things,

- air emissions,
- the construction and operation of underground injection wells to dispose of produced saltwater and other non-hazardous oilfield wastes, and
- the construction and operation of surface pits to contain drilling muds and other non-hazardous fluids associated with drilling operations.

Under federal, state and local laws, we could be required to remove or remediate previously disposed wastes, including wastes disposed of or released by us or prior owners or operators in accordance with current laws or otherwise, to suspend or cease operations at contaminated areas, or to perform remedial well plugging operations or response actions to reduce the risk of future contamination. Federal and state laws, including the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, impose joint and several liability, without regard to fault or legality of the original conduct, on classes of persons who are considered responsible for response actions to address the release of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred, and persons that disposed of or arranged for the disposal of hazardous substances at the site. The Environmental Protection Agency, state environmental agencies and, in some cases, third parties are authorized to take actions in response to threats to human health or the environment and to seek to recover from responsible classes of persons the costs of such actions. Furthermore, certain wastes generated by our oil and natural gas operations that are currently exempt from treatment as hazardous wastes may in the future be designated as hazardous wastes and, therefore, be subject to considerably more rigorous and costly operating and disposal requirements.

Federal and state occupational safety and health laws require us to organize and maintain information about hazardous materials used, released or produced in our operations. Certain portions of this information must be provided to employees, state and local governmental authorities and local citizens. We are also subject to the requirements and reporting set forth in federal workplace standards.

We have made and will continue to make expenditures to comply with environmental, health and safety regulations and requirements. These are necessary business costs in the oil and natural gas industry. Although we are not fully insured against all environmental, health and safety risks, we maintain insurance coverage which we believe is customary in the industry. Moreover, it is possible that other developments, such as stricter and more comprehensive environmental, health and safety laws and regulations, as well as claims for damages to property or persons resulting from company operations, could result in substantial costs and liabilities, including civil and criminal penalties, to Chesapeake. We believe we are in material compliance with existing environmental, health and safety regulations, and that, absent the occurrence of an extraordinary event, the effect of which cannot be predicted, any noncompliance will not have a material adverse effect on our business, financial position and results of operations.

Income Taxes

Chesapeake recorded income tax expense of $890 million in 2007 compared to income tax expense of $1.252 billion in 2006 and $545 million in 2005. Of the $362 million decrease in 2007, $347 million was the result of the decrease in net income before taxes and $15 million was the result of a decrease in the effective tax rate. Our effective income tax rate was 38% in 2007 compared to 38.5% in 2006 and 36.5% in 2005. Our effective tax rate fluctuates as a result of the impact of state income taxes and permanent differences between our accounting for certain revenue or expense items and their corresponding treatment for income tax purposes. We expect our effective income tax rate to be 38.5% in 2008.

At December 31, 2007, Chesapeake had federal income tax net operating loss (NOL) carryforwards of approximately $238 million and approximately $29 million of percentage depletion carryforwards. We also had approximately $5 million of alternative minimum tax (AMT) NOL carryforwards available as a deduction against future AMT income. The NOL carryforwards expire from 2019 through 2026. The value of the remaining carryforwards depends on the ability of Chesapeake to generate taxable income. In addition, for AMT purposes, only 90% of AMT income in any given year may be offset by AMT NOLs.

The ability of Chesapeake to utilize NOL carryforwards to reduce future federal taxable income and federal income tax is subject to various limitations under the Internal Revenue Code of 1986, as amended. The utilization of such carryforwards may be limited upon the occurrence of certain ownership changes, including the issuance or exercise of rights to acquire stock, the purchase or sale of stock by 5% stockholders, as defined in the Treasury regulations, and the offering of stock by us during any three-year period resulting in an aggregate change of more than 50% in the beneficial ownership of Chesapeake.

In the event of an ownership change (as defined for income tax purposes), Section 382 of the Code imposes an annual limitation on the amount of a corporation's taxable income that can be offset by these carryforwards. The limitation is generally equal to the product of (i) the fair market value of the equity of the company multiplied by (ii) a percentage approximately equivalent to the yield on long-term tax exempt bonds during the month in which an ownership change occurs. In addition, the limitation is increased if there are recognized built-in gains during any post-change year, but only to the extent of any net unrealized built-in gains (as defined in the Code) inherent in the assets sold. Certain NOLs acquired through various acquisitions are also subject to limitations. The following table summarizes our net operating losses as of December 31, 2007 and any related limitations:

	Net Operating Losses		
	Total	Limited	Annual Limitation
		($ in millions)	
Net operating loss	$238	$ 27	$ 10
AMT net operating loss	$ 5	$ 5	$ 1

As of December 31, 2007, we do not believe that an ownership change has occurred. Future equity transactions by Chesapeake or by 5% stockholders (including relatively small transactions and transactions beyond our control) could cause an ownership change and therefore a limitation on the annual utilization of NOLs. Following an ownership change, the amount of Chesapeake's NOLs available for use each year will depend upon future events that cannot currently be predicted and upon interpretation of complex rules under Treasury regulations. If less than the full amount of the annual limitation is utilized in any given year, the unused portion may be carried forward and may be used in addition to successive years' annual limitation.

We expect to utilize our NOL carryforwards and other tax deductions and credits to offset taxable income in the future. However, there is no assurance that the Internal Revenue Service will not challenge these carryforwards or their utilization.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*. FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 became effective for fiscal years beginning after December 15, 2006.

Chesapeake adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, Chesapeake recognized a $7 million liability for accrued interest associated with uncertain tax positions which was accounted for as a reduction in the January 1, 2007 balance of retained earnings, net of tax. At the date of adoption, we had approximately $142 million of unrecognized tax benefits related to alternative minimum tax (AMT) associated with uncertain tax positions. As of December 31, 2007, the amount of unrecognized tax benefits related to AMT associated with uncertain tax positions was $133 million. If these unrecognized tax benefits are disallowed and we are ultimately required to pay additional AMT liabilities, any payments can be utilized as credits against future regular tax liabilities. The uncertain tax positions identified would not have a material effect on the effective tax rate. At December 31, 2007, we had a liability of $5 million for interest related to these same uncertain tax positions. Chesapeake recognizes interest related to uncertain tax positions in interest expense. Penalties, if any, related to uncertain tax positions would be recorded in other expenses.

Chesapeake files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, Chesapeake is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004. The Internal Revenue Service (IRS) completed an examination of Chesapeake's U.S. income tax returns for 2003 and 2004 in September 2007. This examination resulted in additional AMT liabilities of $9 million. These AMT liabilities can be utilized as credits against future regular tax liabilities. The adjustments in the examination did not result in a material change to our financial position, results of operations or cash flows.

Title to Properties

Our title to properties is subject to royalty, overriding royalty, carried, net profits, working and other similar interests and contractual arrangements customary in the oil and natural gas industry, to liens for current taxes not yet due and to other encumbrances. As is customary in the industry in the case of undeveloped properties, only cursory investigation of record title is made at the time of acquisition. Drilling title opinions are usually prepared before commencement of drilling operations. We believe we have satisfactory title to substantially all of our active properties in accordance with standards generally accepted in the oil and natural gas industry. Nevertheless, we are involved in title disputes from time to time which result in litigation.

Operating Hazards and Insurance

The oil and natural gas business involves a variety of operating risks, including the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as oil spills, natural gas leaks, ruptures or discharges of toxic gases. If any of these should occur, Chesapeake could suffer substantial losses due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties, and suspension of operations. Our horizontal and deep drilling activities involve greater risk of mechanical problems than vertical and shallow drilling operations.

Chesapeake maintains a $50 million control of well policy that insures against certain sudden and accidental risks associated with drilling, completing and operating our wells. There is no assurance that this insurance will be adequate to cover all losses or exposure to liability. Chesapeake also carries a $300 million comprehensive general liability umbrella policy and a $100 million pollution liability policy. We provide workers' compensation insurance coverage to employees in all states in which we operate. While we believe these policies are customary in the industry, they do not provide complete coverage against all operating risks.

Facilities

Chesapeake owns an office complex in Oklahoma City and we are in the process of constructing additional corporate facilities in Oklahoma City and Charleston, West Virginia. We also own or lease various field offices in the following locations:

- Arkansas: Searcy and Little Rock
- Illinois: Chicago
- Kansas: Garden City
- Kentucky: Gray, Elkhorn City, Hueysville, Inez and Prestonsburg
- Louisiana: Cheneyville, Goldonna and Shreveport
- New Mexico: Carlsbad, Eunice, Hobbs and Lovington
- New York: Horseheads
- Oklahoma: Arkoma, Billings, El Reno, Elk City, Enid, Forgan, Hartshorne, Hinton, Kingfisher, Lindsay, Mayfield, Oklahoma City, Waynoka, Weatherford, Wilburton and Woodward
- Pennsylvania: Mt. Morris
- Tennessee: Egan

- Texas: Alvarado, Borger, Bryan, Cleburne, College Station, Dumas, Fort Worth, Garrison, Marshall, Midland, Ozona, Pecos, Tyler, Victoria and Zapata
- West Virginia: Branchland, Buckhannon, Chapmanville, Cedar Grove, Clendenin, Hamlin, Kermit, Shrewsbury, Tad and Teays Valley

Employees

Chesapeake had approximately 6,200 employees as of December 31, 2007, which includes 2,271 employed by our service operations companies. As a result of the CNR acquisition, we assumed a collective bargaining agreement with the United Steel Workers of America ("USWA") which expired effective December 1, 2006, covering approximately 135 of our field employees in West Virginia and Kentucky. We continued to operate under the terms of the collective bargaining agreement while negotiating with the USWA. Contract negotiations began in October 2006 and have been mediated by the Federal Mediation and Conciliation Service. On May 4, 2007, we presented the USWA leadership our "last, best and final offer". On December 7, 2007, the USWA membership voted to reject our offer and, effective February 1, 2008 we implemented the terms of our offer with certain minor clarifications. There have been no strikes, work stoppages or slowdowns since the expiration of the contract, although no assurances can be given that such actions will not occur.

Glossary of Oil and Natural Gas Terms

The terms defined in this section are used throughout this Form 10-K.

Bcf. Billion cubic feet.

Bcfe. Billion cubic feet of natural gas equivalent.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used herein in reference to crude oil or other liquid hydrocarbons.

Bbtu. One billion British thermal units.

Btu. British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Commercial Well; Commercially Productive Well. An oil and natural gas well which produces oil and natural gas in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

Conventional Reserves. Oil and natural gas occurring as discrete accumulations in structural and stratigraphic traps.

Developed Acreage. The number of acres which are allocated or assignable to producing wells or wells capable of production.

Development Well. A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dry Hole; Dry Well. A well found to be incapable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.

Exploratory Well. A well drilled to find and produce oil or natural gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir or to extend a known reservoir.

Farmout. An assignment of an interest in a drilling location and related acreage conditional upon the drilling of a well on that location.

Formation. A succession of sedimentary beds that were deposited under the same general geologic conditions.

Full-Cost Pool. The full-cost pool consists of all costs associated with property acquisition, exploration, and development activities for a company using the full-cost method of accounting. Additionally, any internal costs that can be directly identified with acquisition, exploration and development activities are included. Any costs related to production, general corporate overhead or similar activities are not included.

Gross Acres or Gross Wells. The total acres or wells, as the case may be, in which a working interest is owned.

Horizontal Wells. Wells which are drilled at angles greater than 70 degrees from vertical.

Infill Drilling. Drilling wells between established producing wells on a lease; a drilling program to reduce the spacing between wells in order to increase production and/or recovery of in-place hydrocarbons from the lease.

Mbbl. One thousand barrels of crude oil or other liquid hydrocarbons.

Mbtu. One thousand btus.

Mcf. One thousand cubic feet.

Mcfe. One thousand cubic feet of natural gas equivalent.

Mmbbl. One million barrels of crude oil or other liquid hydrocarbons.

Mmbtu. One million btus.

Mmcf. One million cubic feet.

Mmcfe. One million cubic feet of natural gas equivalent.

Net Acres or Net Wells. The sum of the fractional working interests owned in gross acres or gross wells.

NYMEX. New York Mercantile Exchange.

Play. A term applied to a portion of the exploration and production cycle following the identification by geologists and geophysicists of areas with potential oil and gas reserves.

Present Value or PV-10. When used with respect to oil and natural gas reserves, present value or PV-10 means the estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs in effect at the determination date, without giving effect to non-property related expenses such as general and administrative expenses, debt service and future income tax expense or to depreciation, depletion and amortization, discounted using an annual discount rate of 10%.

Productive Well. A well that is producing oil or natural gas or that is capable of production.

Proved Developed Reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and natural gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production responses that increased recovery will be achieved.

Proved Reserves. The estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir. Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

Proved Undeveloped Location. A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.

Proved Undeveloped Reserves. Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Proved undeveloped reserves may not include estimates attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

Reserve Replacement. Calculated by dividing the sum of reserve additions from all sources (revisions, extensions, discoveries and other additions and acquisitions) by the actual production for the corresponding period. The values for these reserve additions are derived directly from the proved reserves table located in Note 11 of the notes to our consolidated financial statements. In calculating reserve replacement, we do not use unproved reserve quantities or proved reserve additions attributable to less than wholly owned consolidated entities or investments accounted for using the equity method. Management uses the reserve replacement ratio as an indicator of the company’s ability to replenish annual production volumes and grow its reserves, thereby providing some information on the sources of future production. It should be noted that the reserve replacement ratio is a statistical indicator that has limitations. As an annual measure, the ratio is limited because it typically varies widely based on the extent and timing of new discoveries and property acquisitions. Its predictive and comparative value is also limited for the same reasons. In addition, since the ratio does not imbed the cost or timing of future production of new reserves, it cannot be used as a measure of value creation.

Royalty Interest. An interest in an oil and natural gas property entitling the owner to a share of oil or natural gas production free of costs of production.

Seismic. An exploration method of sending energy waves or sound waves into the earth and recording the wave reflections to indicate the type, size, shape and depth of subsurface rock formation (3-D seismic provides three-dimensional pictures).

Shale. Fine-grained sedimentary rock composed mostly of consolidated clay or mud. Shale is the most frequently occurring sedimentary rock.

Standardized Measure of Discounted Future Net Cash Flows. The discounted future net cash flows relating to proved reserves based on year-end prices, costs and statutory tax rates (adjusted for permanent differences) and a 10-percent annual discount rate.

Tcf. One trillion cubic feet.

Tcfe. One trillion cubic feet of natural gas equivalent.

Unconventional Reserves. Oil and natural gas occurring in regionally pervasive accumulations with low matrix permeability and close association with source rocks.

Undeveloped Acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

Unproved Properties. Properties with no proved reserves.

VPP. A volumetric production payment represents an obligation of the purchaser of a property to deliver a specific volume of production, free and clear of all costs, to the seller of the property.

Working Interest. The operating interest which gives the owner the right to drill, produce and conduct operating activities on the property and a share of production.

ITEM 1A. *Risk Factors*

Oil and natural gas prices are volatile. A decline in prices could adversely affect our financial position, financial results, cash flows, access to capital and ability to grow.

Our revenues, operating results, profitability and future rate of growth depend primarily upon the prices we receive for the oil and natural gas we sell. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. The amount we can borrow from banks is subject to periodic redeterminations based on prices specified by our bank group at the time of redetermination. In addition, we may have ceiling test write-downs in the future if prices fall significantly.

Historically, the markets for oil and natural gas have been volatile and they are likely to continue to be volatile. Wide fluctuations in oil and natural gas prices may result from relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and other factors that are beyond our control, including:

- worldwide and domestic supplies of oil and natural gas;
- weather conditions;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the proximity and capacity of natural gas pipelines and other transportation facilities;
- the price and level of foreign imports;
- domestic and foreign governmental regulations and taxes;
- the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;

- political instability or armed conflict in oil-producing regions; and
- overall domestic and global economic conditions.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and natural gas price movements with any certainty. Declines in oil and natural gas prices would not only reduce revenue, but could reduce the amount of oil and natural gas that we can produce economically and, as a result, could have a material adverse effect on our financial condition, results of operations and reserves. Further, oil and natural gas prices do not necessarily move in tandem. Because approximately 93% of our reserves at December 31, 2007 were natural gas reserves, we are more affected by movements in natural gas prices.

Our level of indebtedness may limit our financial flexibility.

As of December 31, 2007, we had long-term indebtedness of approximately $10.950 billion, with $1.950 billion of outstanding borrowings drawn under our revolving bank credit facility. Our long-term indebtedness represented 47% of our total book capitalization at December 31, 2007. As of February 26, 2008, we had approximately $2.899 billion outstanding under our revolving bank credit facility.

Our level of indebtedness and preferred stock affects our operations in several ways, including the following:

- a portion of our cash flows from operating activities must be used to service our indebtedness and pay dividends on our preferred stock and is not available for other purposes;
- we may be at a competitive disadvantage as compared to similar companies that have less debt;
- the covenants contained in the agreements governing our outstanding indebtedness and future indebtedness may limit our ability to borrow additional funds, pay dividends and make certain investments and may also affect our flexibility in planning for, and reacting to, changes in the economy and in our industry;
- additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and more restrictive covenants; and
- changes in the credit ratings of our debt may negatively affect the cost, terms, conditions and availability of future financing, and lower ratings will increase the interest rate and fees we pay on our revolving bank credit facility.

We may incur additional debt, including secured indebtedness, or issue additional series of preferred stock in order to develop our properties and make future acquisitions. A higher level of indebtedness and/or additional preferred stock increases the risk that we may default on our obligations. Our ability to meet our debt obligations and to reduce our level of indebtedness depends on our future performance. General economic conditions, oil and natural gas prices and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. We may not be able to generate sufficient cash flow to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. Factors that will affect our ability to raise cash through an offering of our capital stock or a refinancing of our debt include financial market conditions, the value of our assets and our performance at the time we need capital.

In addition, our bank borrowing base is subject to periodic redetermination. A lowering of our borrowing base could require us to repay indebtedness in excess of the borrowing base, or we might need to further secure the lenders with additional collateral.

Competition in the oil and natural gas industry is intense, and many of our competitors have greater financial and other resources than we do.

We operate in the highly competitive areas of oil and natural gas development, exploitation, exploration, acquisition and production. We face intense competition from both major and other independent oil and natural gas companies in each of the following areas:

- seeking to acquire desirable producing properties or new leases for future exploration; and
- seeking to acquire the equipment and expertise necessary to develop and operate our properties.

Many of our competitors have financial and other resources substantially greater than ours, and some of them are fully integrated oil companies. These companies may be able to pay more for development prospects and productive oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. Our ability to develop and exploit our oil and natural gas properties and to acquire additional properties in the future will depend upon our ability to successfully conduct operations, evaluate and select suitable properties and consummate transactions in this highly competitive environment.

Significant capital expenditures are required to replace our reserves.

Our exploration, development and acquisition activities require substantial capital expenditures. Historically, we have funded our capital expenditures through a combination of cash flows from operations, our revolving bank credit facility and debt and equity issuances. Future cash flows are subject to a number of variables, such as the level of production from existing wells, prices of oil and natural gas, and our success in developing and producing new reserves. If revenues were to decrease as a result of lower oil and natural gas prices or decreased production, and our access to capital were limited, we would have a reduced ability to replace our reserves. If our cash flow from operations is not sufficient to fund our capital expenditure budget, we may not be able to access additional bank debt, debt or equity or other methods of financing on an economic basis to meet these requirements.

If we are not able to replace reserves, we may not be able to sustain production.

Our future success depends largely upon our ability to find, develop or acquire additional oil and natural gas reserves that are economically recoverable. Unless we replace the reserves we produce through successful development, exploration or acquisition activities, our proved reserves and production will decline over time. In addition, approximately 36% of our total estimated proved reserves (by volume) at December 31, 2007 were undeveloped. By their nature, estimates of undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. Our reserve estimates reflect that our production rate on producing properties will decline approximately 28% from 2008 to 2009. Thus, our future oil and natural gas reserves and production and, therefore, our cash flow and income are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves.

The actual quantities and present value of our proved reserves may prove to be lower than we have estimated.

This report contains estimates of our proved reserves and the estimated future net revenues from our proved reserves. These estimates are based upon various assumptions, including assumptions required by the SEC relating to oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating oil and natural gas reserves is complex. The process involves significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. Therefore, these estimates are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from these estimates. Such variations may be significant and could materially affect the estimated quantities and present value of our proved reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development drilling, prevailing oil and natural gas prices and other factors, many of which are beyond our control. Our properties may also be susceptible to hydrocarbon drainage from production by operators on adjacent properties.

At December 31, 2007, approximately 36% of our estimated proved reserves (by volume) were undeveloped. Recovery of undeveloped reserves requires significant capital expenditures and successful drilling operations. These reserve estimates include the assumption that we will make significant capital expenditures to develop the reserves, including approximately $2.6 billion in 2008. You should be aware that the estimated costs may not be accurate, development may not occur as scheduled and results may not be as estimated.

You should not assume that the present values referred to in this report represent the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, the estimates of our present values are based on prices and costs as of the date of the estimates. The December 31, 2007 present value is based on weighted average oil and natural gas wellhead prices of $90.58 per barrel of oil and $6.19 per mcf of natural gas. Actual future prices and costs may be materially higher or lower than the prices and costs as of the date of an estimate.

Any changes in consumption by oil and natural gas purchasers or in governmental regulations or taxation will also affect actual future net cash flows.

The timing of both the production and the expenses from the development and production of oil and natural gas properties will affect both the timing of actual future net cash flows from our proved reserves and their present value. In addition, the 10% discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most accurate discount factor. The effective interest rate at various times and the risks associated with our business or the oil and natural gas industry in general will affect the accuracy of the 10% discount factor.

Acquisitions may prove to be worth less than we paid because of uncertainties in evaluating recoverable reserves and potential liabilities.

Our growth during the past few years is due in large part to acquisitions of exploration and production companies, producing properties and undeveloped leasehold. Successful acquisitions require an assessment of a number of factors, including estimates of recoverable reserves, exploration potential, future oil and natural gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain. In connection with our assessments, we perform a review of the acquired properties which we believe is generally consistent with industry practices. However, such a review will not reveal all existing or potential problems. In addition, our review may not permit us to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. We do not inspect every well. Even when we inspect a well, we do not always discover structural, subsurface and environmental problems that may exist or arise. As a result of these factors, the purchase price we pay to acquire oil and natural gas properties may exceed the value we realize.

We are generally not entitled to contractual indemnification for preclosing liabilities, including environmental liabilities. Normally, we acquire interests in properties on an “as is” basis with limited remedies for breaches of representations and warranties. When we make entity acquisitions, we may have transferee liability that is not fully indemnified. Our acquisition of Columbia Natural Resources, LLC (CNR) in November 2005 was made subject to claims which are covered in part by the indemnification of a prior owner, NiSource Inc. NiSource and Chesapeake are co-defendants in a class action lawsuit brought by royalty owners in West

Virginia in which the jury returned a verdict in January 2007 awarding plaintiffs $404 million, consisting of $134 million in compensatory damages and $270 million in punitive damages. Although Chesapeake believes its share of damages that might ultimately be awarded in this case will not have a material adverse effect on its results of operations, financial condition or liquidity as a result of the NiSource indemnity and post-trial remedies that may be available, Chesapeake is a defendant in other cases involving acquired companies where it may have no, or only limited, indemnification rights. In any such actions we could incur significant liability.

Exploration and development drilling may not result in commercially productive reserves.

We do not always encounter commercially productive reservoirs through our drilling operations. The new wells we drill or participate in may not be productive and we may not recover all or any portion of our investment in wells we drill or participate in. The seismic data and other technologies we use do not allow us to know conclusively prior to drilling a well that oil or natural gas is present or may be produced economically. The cost of drilling, completing and operating a well is often uncertain, and cost factors can adversely affect the economics of a project. Our efforts will be unprofitable if we drill dry wells or wells that are productive but do not produce enough reserves to return a profit after drilling, operating and other costs. Further, our drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

- increases in the cost of, or shortages or delays in the availability of, drilling rigs and equipment;
- unexpected drilling conditions;
- title problems;
- pressure or irregularities in formations;
- equipment failures or accidents;
- adverse weather conditions; and
- compliance with environmental and other governmental requirements.

Future price declines may result in a write-down of our asset carrying values.

We utilize the full-cost method of accounting for costs related to our oil and natural gas properties. Under this method, all such costs (for both productive and nonproductive properties) are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the unit-of-production method. However, these capitalized costs are subject to a ceiling test which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and natural gas reserves discounted at 10% plus the lower of cost or market value of unproved properties. The full-cost ceiling is evaluated at the end of each quarter using the prices for oil and natural gas at that date, adjusted for the impact of derivatives accounted for as cash flow hedges. A significant decline in oil and natural gas prices from current levels, or other factors, without other mitigating circumstances, could cause a future writedown of capitalized costs and a non-cash charge against future earnings.

Our hedging activities may reduce the realized prices received for our oil and natural gas sales and require us to provide collateral for hedging liabilities.

In order to manage our exposure to price volatility in marketing our oil and natural gas, we enter into oil and natural gas price risk management arrangements for a portion of our expected production. Commodity price hedging may limit the prices we actually realize and therefore reduce oil and natural gas revenues in the future. The fair value of our oil and natural gas derivative instruments outstanding as of December 31, 2007 was a liability of approximately $369 million. In addition, our commodity price risk management transactions may expose us to the risk of financial loss in certain circumstances, including instances in which:

- our production is less than expected;

- there is a widening of price differentials between delivery points for our production and the delivery point assumed in the hedge arrangement; or
- the counterparties to our contracts fail to perform under the contracts.

All but three of our commodity price risk management counterparties require us to provide assurances of performance in the event that the counterparties' mark-to-market exposure to us exceeds certain levels. Most of these arrangements allow us to minimize the potential liquidity impact of significant mark-to-market fluctuations by making collateral allocations from our revolving bank credit facility or directly pledging oil and natural gas properties, rather than posting cash or letters of credit with the counterparties. Future collateral requirements are uncertain, however, and will depend on the arrangements with our counterparties and highly volatile natural gas and oil prices.

Lower oil and natural gas prices could negatively impact our ability to borrow.

Our revolving bank credit facility limits our borrowings to the lesser of the borrowing base and the total commitments (currently both are $3.5 billion). The borrowing base is determined periodically at the discretion of the banks and is based in part on oil and natural gas prices. Additionally, some of our indentures contain covenants limiting our ability to incur indebtedness in addition to that incurred under our revolving bank credit facility. These indentures limit our ability to incur additional indebtedness unless we meet one of two alternative tests. The first alternative is based on our adjusted consolidated net tangible assets (as defined in all of our indentures), which is determined using discounted future net revenues from proved oil and natural gas reserves as of the end of each year. The second alternative is based on the ratio of our adjusted consolidated EBITDA (as defined in the relevant indentures) to our adjusted consolidated interest expense over a trailing twelve-month period. Currently, we are permitted to incur additional indebtedness under both debt incurrence tests. Lower oil and natural gas prices in the future could reduce our adjusted consolidated EBITDA, as well as our adjusted consolidated net tangible assets, and thus could reduce our ability to incur additional indebtedness.

Oil and natural gas drilling and producing operations can be hazardous and may expose us to environmental liabilities.

Oil and natural gas operations are subject to many risks, including well blowouts, cratering and explosions, pipe failures, fires, formations with abnormal pressures, uncontrollable flows of oil, natural gas, brine or well fluids, and other environmental hazards and risks. Our drilling operations involve risks from high pressures and from mechanical difficulties such as stuck pipes, collapsed casings and separated cables. If any of these risks occurs, we could sustain substantial losses as a result of:

- injury or loss of life;
- severe damage to or destruction of property, natural resources or equipment;
- pollution or other environmental damage;
- clean-up responsibilities;
- regulatory investigations and administrative, civil and criminal penalties; and
- injunctions resulting in limitation or suspension of operations.

There is inherent risk of incurring significant environmental costs and liabilities in our exploration and production operations due to our generation, handling, and disposal of materials, including wastes and petroleum hydrocarbons. We may incur joint and several, strict liability under applicable U.S. federal and state environmental laws in connection with releases of petroleum hydrocarbons and other hazardous substances at, on, under or from our leased or owned properties, some of which have been used for oil and natural gas exploration and production activities for a number of years, often by third parties not under our control. While we may maintain insurance against some, but not all, of the risks described above, our insurance may not be adequate to cover casualty losses or liabilities. Also, in the future we may not be able to obtain insurance at premium levels that justify its purchase.

In addition, studies have suggested that emissions of certain gases, commonly referred to as "greenhouse gases," may be contributing to warming of the Earth's atmosphere. Methane, a primary component of natural gas, and carbon dioxide, a byproduct of the burning of natural gas, are examples of greenhouse gases. The U.S. Congress is actively considering legislation to reduce emissions of greenhouse gases. In addition, at least nine states in the Northeast and five states in the West including New Mexico have developed initiatives to regulate emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. The U.S. Environmental Protection Agency is separately considering whether it will regulate greenhouse gases as "air pollutants" under the existing federal Clean Air Act. Passage of climate control legislation or other regulatory initiatives by Congress or various states in the U.S. or the adoption of regulations by the EPA or analogous state agencies that regulate or restrict emissions of greenhouse gases including methane or carbon dioxide in areas in which we conduct business could have an adverse effect on our operations and demand for our products.

A portion of our oil and gas production may be subject to interruptions that could temporarily adversely affect our cash flow.

A portion of our regional oil and gas production may be interrupted, or shut in, from time to time for numerous reasons, including as a result of weather conditions, accidents, loss of pipeline or gathering system access, field labor issues or strikes, or intentionally as a result of market conditions. If a substantial amount of our production is interrupted at the same time, it could temporarily adversely affect our cash flow.

ITEM 1B. *Unresolved Staff Comments*

None.

ITEM 2. *Properties*

Information regarding our properties is included in Item 1 and in Note 11 of the notes to our consolidated financial statements included in Item 8 of this report.

ITEM 3. *Legal Proceedings*

We are involved in various disputes incidental to our business operations, including claims from royalty owners regarding volume measurements, post-production costs and prices for royalty calculations. In Tawney, et al. v. Columbia Natural Resources, Inc., Chesapeake's wholly owned subsidiary Chesapeake Appalachia, L.L.C., formerly known as Columbia Natural Resources, LLC (CNR), is a defendant in a class action lawsuit in the Circuit Court of Roane County, West Virginia filed in 2003 by royalty owners. The plaintiffs allege that CNR underpaid royalties by improperly deducting post-production costs, failing to pay royalty on total volumes of natural gas produced and not paying a fair value for the natural gas produced from their leases. The plaintiff class consists of West Virginia royalty owners receiving royalties after July 31, 1990 from CNR. Chesapeake acquired CNR in November 2005, and its seller acquired CNR in 2003 from NiSource Inc. NiSource, a co-defendant in the case, has managed the litigation and indemnified Chesapeake against underpayment claims based on the use of fixed prices for natural gas production sold under certain forward sale contracts and other claims with respect to CNR's operations prior to September 2003.

On January 27, 2007, the Circuit Court jury returned a verdict against the defendants of $404 million, consisting of $134 million in compensatory damages and $270 million in punitive damages. Most of the damages awarded by the jury relate to issues not yet addressed by the West Virginia Supreme Court of Appeals, although in June 2006 that Court ruled against the defendants on two certified questions regarding the deductibility of post-production expenses. The jury found fraudulent conduct by the defendants with respect to the sales prices used to calculate royalty payments and with respect to the failure of CNR to disclose post-production deductions. On June 28, 2007, the Circuit Court sustained the jury verdict for punitive damages, and on September 27, 2007, it denied all post-trial motions, including defendants' motion for judgment as a matter of law, or in the alternative, for a new trial. On December 5, 2007, the Circuit Court entered an order granting defendants' motion to stay the judgment pending appeal conditioned upon filing an irrevocable letter of credit in the amount of $50 million. The irrevocable letter of credit was filed January 4, 2008. On January 24, 2008, the defendants filed a Petition for Appeal in the West Virginia Supreme Court of Appeals.

Chesapeake and NiSource maintain CNR acted in good faith and paid royalties in accordance with lease terms and West Virginia law. Chesapeake has established an accrual for amounts it believes will not be indemnified. Should a final nonappealable judgment be entered, Chesapeake believes its share of damages will not have a material adverse effect on its results of operations, financial condition or liquidity.

Chesapeake is subject to other legal proceedings and claims which arise in the ordinary course of business. In our opinion, the final resolution of these proceedings and claims will not have a material adverse effect on the company.

ITEM 4. ***Submissionof Matters to a Vote of Security Holders***

Not applicable.

PART II

ITEM 5. ***Marketfor Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Price Range of Common Stock

Our common stock trades on the New York Stock Exchange under the symbol "CHK". The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported by the New York Stock Exchange:

	Common Stock	
	High	Low
Year ended December 31, 2007:		
Fourth Quarter	$41.19	$34.90
Third Quarter	37.55	31.38
Second Quarter	37.75	30.88
First Quarter	31.83	27.27
Year ended December 31, 2006:		
Fourth Quarter	$34.27	$27.90
Third Quarter	33.76	28.06
Second Quarter	33.79	26.81
First Quarter	35.57	27.75

At February 26, 2008, there were 1,651 holders of record of our common stock and approximately 260,000 beneficial owners.

Dividends

The following table sets forth the amount of dividends per share declared on Chesapeake common stock during 2007 and 2006:

	2007	2006
Fourth Quarter	$0.0675	$0.06
Third Quarter	0.0675	0.06
Second Quarter	0.0675	0.06
First Quarter	0.06	0.05

While we expect to continue to pay dividends on our common stock, the payment of future cash dividends will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, our future business prospects, contractual restrictions and any other factors considered relevant by the Board of Directors.

Several of the indentures governing our outstanding senior notes contain restrictions on our ability to declare and pay cash dividends. Under these indentures, we may not pay any cash dividends on our common or preferred stock if an event of default has occurred, if we have not met one of the two debt incurrence tests described in the indentures, or if immediately after giving effect to the dividend payment, we have paid total dividends and made other restricted payments in excess of the permitted amounts. As of December 31, 2007, our coverage ratio for purposes of the debt incurrence test under the relevant indentures was 7.46 to 1, compared to 2.25 to 1 required in our indentures. Our adjusted consolidated net tangible assets exceeded 200% of our total indebtedness, as required by the second debt incurrence test in these indentures, by more than $1.9 billion.

The following table presents information about repurchases of our common stock during the three months ended December 31, 2007:

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (b)
October 1, 2007 through October 31, 2007	5,491	$ 39.236	—	—
November 1, 2007 through November 30, 2007	5,667	$ 37.875	—	—
December 1, 2007 through December 31, 2007	6,726	$ 39.210	—	—
Total	17,884	$ 38.795	—	—

(a) Includes the deemed surrender to the company of 1,417 shares of common stock to pay the exercise price in connection with the exercise of employee stock options and the surrender to the company of 16,467 shares of common stock to pay withholding taxes in connection with the vesting of employee restricted stock.

(b) We make matching contributions to our 401(k) plans and 401(k) make-up plan using Chesapeake common stock which is held in treasury or is purchased by the respective plan trustees in the open market. The plans contain no limitation on the number of shares that may be purchased for purposes of the company contributions. There are no other repurchase plans or programs currently authorized by the Board of Directors.

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ITEM 6. *Selected Financial Data*

The following table sets forth selected consolidated financial data of Chesapeake for the years ended December 31, 2007, 2006, 2005, 2004 and 2003. The data are derived from our audited consolidated financial statements revised to reflect the reclassification of certain items. In addition to changes in the annual average prices for oil and natural gas and increased production from drilling activity, significant acquisitions in recent years also impacted comparability between years. See Notes 11 and 13 of the notes to our consolidated financial statements. The table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements, including the notes, appearing in Items 7 and 8 of this report.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	($ in millions, except per share data)				
Statement of Operations Data:					
Revenues:					
Oil and natural gas sales	$ 5,624	$ 5,619	$ 3,273	$ 1,936	$ 1,297
Oil and natural gas marketing sales	2,040	1,577	1,392	773	420
Service operations revenue	136	130	—	—	—
Total revenues	7,800	7,326	4,665	2,709	1,717
Operating costs:					
Production expenses	640	490	317	205	138
Production taxes	216	176	208	104	78
General and administrative expenses	243	139	64	37	24
Oil and natural gas marketing expenses	1,969	1,522	1,358	755	410
Service operations expense	94	68	—	—	—
Oil and natural gas depreciation, depletion and amortization	1,835	1,359	894	582	369
Depreciation and amortization of other assets	154	104	51	29	17
Employee retirement expense	—	55	—	—	—
Provision for legal settlements	—	—	—	5	6
Total operating costs	5,151	3,913	2,892	1,717	1,042
Income from operations	2,649	3,413	1,773	992	675
Other income (expense):					
Interest and other income	15	26	10	5	1
Interest expense	(406)	(301)	(220)	(167)	(154)
Gain on sale of investment	83	117	—	—	—
Loss on repurchases or exchanges of Chesapeake senior notes	—	—	(70)	(25)	(21)
Total other income (expense)	(308)	(158)	(280)	(187)	(174)
Income before income taxes and cumulative effect of accounting change	2,341	3,255	1,493	805	501
Income tax expense (benefit):					
Current	29	5	—	—	5
Deferred	861	1,247	545	290	185
Total income tax expense	890	1,252	545	290	190
Net income before cumulative effect of accounting change, net of tax	1,451	2,003	948	515	311
Cumulative effect of accounting change, net of income taxes of $1 million	—	—	—	—	2
Net Income	1,451	2,003	948	515	313
Preferred stock dividends	(94)	(89)	(42)	(40)	(22)
Loss on conversion/exchange of preferred stock	(128)	(10)	(26)	(36)	—
Net income available to common shareholders	$ 1,229	$ 1,904	$ 880	$ 439	$ 291
Earnings per common share—basic:					
Income before cumulative effect of accounting change	$ 2.69	$ 4.78	$ 2.73	$ 1.73	$ 1.36
Cumulative effect of accounting change	—	—	—	—	0.02
	$ 2.69	$ 4.78	$ 2.73	$ 1.73	$ 1.38
Earnings per common share— assuming dilution:					
Income before cumulative effect of accounting change	$ 2.62	$ 4.35	$ 2.51	$ 1.53	$ 1.20
Cumulative effect of accounting change	—	—	—	—	0.01
	$ 2.62	$ 4.35	$ 2.51	$ 1.53	$ 1.21
Cash dividends declared per common share	$ 0.2625	$ 0.23	$ 0.195	$ 0.17	$ 0.135

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	($ in millions, except per share data)				
Cash Flow Data:					
Cash provided by operating activities	$ 4,932	$ 4,843	$ 2,407	$ 1,432	$ 939
Cash used in investing activities	7,922	8,942	6,921	3,381	2,077
Cash provided by financing activities	2,988	4,042	4,567	1,915	931
Balance Sheet Data (at end of period):					
Total assets	$ 30,734	$ 24,417	$ 16,118	$ 8,245	$ 4,572
Long-term debt, net of current maturities	10,950	7,376	5,490	3,075	2,058
Stockholders' equity	12,130	11,251	6,174	3,163	1,733

ITEM 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Financial Data

The following table sets forth certain information regarding the production volumes, oil and natural gas sales, average sales prices received, other operating income and expenses for the periods indicated:

	Years Ended December 31,		
	2007	2006	2005
Net Production:			
Oil (mbbls)	9,882	8,654	7,698
Natural gas (mmcf)	654,969	526,459	422,389
Natural gas equivalent (mmcfe)	714,261	578,383	468,577
Oil and Natural Gas Sales ($ in millions):			
Oil sales	$ 678	$ 527	$ 402
Oil derivatives—realized gains (losses)	(11)	(15)	(34)
Oil derivatives—unrealized gains (losses)	(235)	28	4
Total oil sales	432	540	372
Natural gas sales	4,117	3,343	3,231
Natural gas derivatives—realized gains (losses)	1,214	1,269	(367)
Natural gas derivatives—unrealized gains (losses)	(139)	467	37
Total natural gas sales	5,192	5,079	2,901
Total oil and natural gas sales	$ 5,624	$ 5,619	$ 3,273
Average Sales Price (excluding gains (losses) on derivatives):			
Oil ($ per bbl)	$ 68.64	$ 60.86	$ 52.20
Natural gas ($ per mcf)	$ 6.29	$ 6.35	$ 7.65
Natural gas equivalent ($ per mcfe)	$ 6.71	$ 6.69	$ 7.75
Average Sales Price (excluding unrealized gains (losses) on derivatives):			
Oil ($ per bbl)	$ 67.50	$ 59.14	$ 47.77
Natural gas ($ per mcf)	$ 8.14	$ 8.76	$ 6.78
Natural gas equivalent ($ per mcfe)	$ 8.40	$ 8.86	$ 6.90
Other Operating Income (a) ($ in millions):			
Oil and natural gas marketing	$ 71	$ 55	$ 35
Service operations	$ 42	$ 62	$ —
Other Operating Income (a) ($ per mcfe):			
Oil and natural gas marketing	$ 0.10	$ 0.09	$ 0.07
Service operations	$ 0.06	$ 0.11	$ —
Expenses ($ per mcfe):			
Production expenses	$ 0.90	$ 0.85	$ 0.68
Production taxes	$ 0.30	$ 0.31	$ 0.44
General and administrative expenses	$ 0.34	$ 0.24	$ 0.14
Oil and natural gas depreciation, depletion and amortization	$ 2.57	$ 2.35	$ 1.91
Depreciation and amortization of other assets	$ 0.22	$ 0.18	$ 0.11
Interest expense (b)	$ 0.51	$ 0.52	$ 0.47
Interest Expense ($ in millions):			
Interest expense	$ 365	$ 301	$ 227
Interest rate derivatives—realized (gains) losses	1	2	(5)
Interest rate derivatives—unrealized (gains) losses	40	(2)	(2)
Total interest expense	$ 406	$ 301	$ 220
Net Wells Drilled	1,919	1,449	816
Net Producing Wells as of the End of Period	21,404	19,079	16,985

(a) Includes revenue and operating costs and excludes depreciation and amortization of other assets.
(b) Includes the effects of realized gains (losses) from interest rate derivatives, but excludes the effects of unrealized gains (losses) and is net of amounts capitalized.

We manage our business as three separate operational segments: exploration and production; marketing; and service operations, which is comprised of our wholly owned drilling and trucking operations. We refer you to Note 8 of the notes to our consolidated financial statements appearing in Item 8 of this report, which summarizes by segment our net income and capital expenditures for 2007, 2006 and 2005 and our assets as of December 31, 2007, 2006 and 2005.

Executive Summary

We are the third largest producer of natural gas in the United States (first among independents). We own interests in approximately 38,500 producing oil and natural gas wells that are currently producing approximately 2.2 bcfe per day, 92% of which is natural gas. Our strategy is focused on discovering, acquiring and developing conventional and unconventional natural gas reserves onshore in the U.S., east of the Rocky Mountains.

Our most important operating area has historically been in various conventional plays in the *Mid-Continent region* of Oklahoma, Arkansas, southwestern Kansas and the Texas Panhandle. At December 31, 2007, 47% of our estimated proved oil and natural gas reserves were located in the Mid-Continent region. During the past five years, we have also built significant positions in various conventional and unconventional plays in the *Fort Worth Basin* in north-central Texas; the *Appalachian Basin*, principally in West Virginia, eastern Kentucky, eastern Ohio, Pennsylvania and southern New York; the *Permian and Delaware Basins* of West Texas and eastern New Mexico; the *Ark-La-Tex* area of East Texas and northern Louisiana; and the *South Texas and Texas Gulf Coast regions*. We have established a top-three position in nearly every major unconventional play onshore in the U.S. east of the Rockies, including the Barnett Shale, the Arkansas Fayetteville Shale, the Appalachian Basin Devonian and Marcellus Shales, the Arkoma and Ardmore Basins Woodford Shale in Oklahoma, the Delaware Basin Barnett and Woodford Shales in West Texas, and the Alabama Conasauga and Chattanooga Shales.

Oil and natural gas production for 2007 was 714.3 bcfe, an increase of 135.9 bcfe, or 23% over the 578.4 bcfe produced in 2006. We have increased our production for 18 consecutive years and 26 consecutive quarters. During these 26 quarters, Chesapeake's U.S. production has increased 467% for an average compound quarterly growth rate of 7% and an average compound annual growth rate of 30%.

During 2007, Chesapeake continued the industry's most active drilling program and drilled 1,992 gross (1,695 net) operated wells and participated in another 1,679 gross (224 net) wells operated by other companies. The company's drilling success rate was 99% for company-operated wells and 97% for non-operated wells. Also during 2007, we invested $4.3 billion in operated wells (using an average of 140 operated rigs) and $708 million in non-operated wells (using an average of 105 non-operated rigs). Total costs incurred in oil and natural gas acquisition, exploration and development activities during 2007, including seismic, unproved properties, leasehold, capitalized interest and internal costs, non-cash tax basis step-up and asset retirement obligations, were $7.6 billion.

Chesapeake began 2007 with estimated proved reserves of 8.956 tcfe and ended the year with 10.879 tcfe, an increase of 1.923 tcfe, or 21%. During 2007, we replaced 714 bcfe of production with an internally estimated 2.637 tcfe of new proved reserves, for a reserve replacement rate of 369%. Reserve replacement through the drillbit was 2.468 tcfe, or 346% of production and 94% of the total increase (including 1.248 tcfe of positive performance revisions and 97 bcfe of positive revisions resulting from oil and natural gas price increases between December 31, 2006 and December 31, 2007). Reserve replacement through the acquisition of proved reserves was 377 bcfe, or 53% of production and 14% of the total increase. During 2007, we divested 208 bcfe of proved reserves. Our annual decline rate on producing properties is projected to be 28% from 2008 to 2009, 18% from 2009 to 2010, 14% from 2010 to 2011, 12% from 2011 to 2012 and 10% from 2012 to 2013. Our percentage of proved undeveloped reserve additions to total proved reserve additions was approximately 29% in 2007, 38% in 2006 and 36% in 2005. Based on our current drilling schedule and budget, we expect that virtually all of the proved undeveloped reserves added in 2007 will begin producing within the next three to five years. Generally, proved developed reserves are producing at the time they are added or will begin producing within one year.

Since 2000, Chesapeake has invested $9.4 billion in new leasehold and 3-D seismic acquisitions and now owns what we believe are the largest combined inventories of onshore leasehold (13 million net acres) and 3-D seismic (19 million acres) in the U.S. On this leasehold, the company has approximately 36,300 net drillsites representing more than a 10-year inventory of drilling projects.

As of December 31, 2007, the company's debt as a percentage of total capitalization (total capitalization is the sum of debt and stockholders' equity) was 47% compared to 40% as of December 31, 2006. The average maturity of our long-term debt is almost nine years with an average interest rate of approximately 5.8%.

Liquidity and Capital Resources

2008 — 2009 Financial Plan

In early September 2007, we announced an enhanced financial plan designed to monetize unrecognized balance sheet value and to fully fund our planned capital expenditures through 2009 without accessing public capital markets. Since then, we have successfully implemented multiple aspects of the plan and anticipate further progress during 2008 and 2009. We believe our planned transactions described below will allow us to monetize approximately $3 billion of assets by the end of 2009.

Sale/Leasebacks. During 2007, we entered into sale/leaseback transactions involving 54 drilling rigs for net proceeds of approximately $369 million. We now operate a total of 78 rigs under sale/leaseback arrangements and anticipate similar transactions on our remaining 3 rigs during 2008, thereby completing the sale/leaseback of our entire fleet of 81 drilling rigs. Also during 2007, we completed a sale/leaseback facility for our natural gas compression assets. We received approximately $188 million for the sale/leaseback of our existing natural gas compression assets, and we will finance up to $175 million of future natural gas compression assets under the same facility.

Producing Property Sales. In December 2007, we monetized a portion of our proved reserves and production in certain Chesapeake-operated producing assets in Kentucky and West Virginia. In this transaction, we sold a volumetric production payment (VPP) to affiliates of UBS AG and DB Energy Trading LLC (a subsidiary of Deutsche Bank AG) for proceeds of approximately $1.1 billion. The VPP entitles the purchaser to receive scheduled quantities of natural gas from Chesapeake's interests in over 4,000 producing wells, free of all production costs and production taxes, over a 15-year period. The transaction included approximately 208 bcfe of proved reserves and 55 mmcfe per day of net production, or approximately 2% of our proved reserves and net production as of December 31, 2007. We have retained drilling rights on the properties below currently producing intervals and outside of existing producing wellbores. In addition, we plan to pursue monetizations of similarly mature properties in 2008 and 2009 for estimated proceeds of approximately $2.0 billion.

In the first quarter of 2008, we sold non-core oil and natural gas assets in the Rocky Mountains and in the Arkoma Basin Woodford Shale play for proceeds of approximately $250 million.

Midstream Partnership. We are currently in the process of forming a private partnership to own a non-operating interest in our midstream natural gas assets outside of Appalachia, which consist primarily of natural gas gathering systems and treating assets. We anticipate raising $1 billion in the first half of 2008 by selling a minority interest in the partnership.

Sources and Uses of Funds

Cash flow from operations is our primary source of liquidity to meet operating expenses and fund capital expenditures (other than for acquisitions outside our budgeted leasehold and property acquisitions). Cash provided by operating activities was $4.932 billion in 2007, compared to $4.843 billion in 2006 and $2.407 billion in 2005. The $89 million increase from 2006 to 2007 was primarily due to higher volumes of oil and natural gas production. The $2.436 billion increase from 2005 to 2006 was primarily due to higher realized prices and higher volumes of oil and natural gas production. Changes in cash flow from operations are largely due to the same factors that affect our net income, excluding non-cash items, such as depreciation, depletion and amortization, deferred income taxes and unrealized gains and (losses) on derivatives. Net income decreased to $1.451 billion in 2007 from $2.003 billion in 2006 compared to $948 million in 2005 and is discussed below under *Results of Operations*.

Changes in market prices for oil and natural gas directly impact the level of our cash flow from operations. While a decline in oil or natural gas prices would affect the amount of cash flow that would be generated from operations, we currently (as of February 21, 2008) have oil hedges in place covering 94% of our expected oil production in 2008 and 87% of our expected natural gas production in 2008, thereby providing price certainty for a substantial portion of our future cash flow. Our oil and natural gas hedges as of December 31, 2007 are detailed in Item 7A of Part II of this report. We have arrangements with our hedging counterparties that allow us to minimize the potential liquidity impact of significant mark-to-market fluctuations in the value of our oil and natural gas hedges by making collateral allocations from our bank credit facility or directly pledging oil and natural gas properties, rather than posting cash or letters of credit with the counterparties. Depending on changes in oil and natural gas futures markets and management's view of underlying oil and natural gas supply and demand trends, we may increase or decrease our current hedging positions.

Our bank credit facility is another source of liquidity. On November 2, 2007, we amended and restated our syndicated revolving bank credit facility to increase the borrowing base to $3.5 billion (with commitments of $3.0 billion) and extended the maturity to November 2012. We subsequently increased the commitments under the credit facility to $3.5 billion. The amendment reflects the increased scale and scope of our operations and will help accommodate timing differences between cash flow from operations, asset monetizations and planned capital expenditures. At February 26, 2008, there was $596 million of borrowing capacity available under the revolving bank credit facility. We use the facility to fund daily operating activities and acquisitions as needed. We borrowed $7.9 billion and repaid $6.2 billion in 2007, we borrowed $8.4 billion and repaid $8.3 billion in 2006, and we borrowed $5.7 billion and repaid $5.7 billion in 2005 under the bank credit facility.

In 2007, we completed two public offerings of our 2.5% Contingent Convertible Senior Notes due 2037. In the first offering, in May 2007, we issued $1.150 billion of notes and in the second offering, in August 2007, we issued $500 million of notes. Net proceeds of approximately $1.124 billion and $483 million, respectively, were used to repay outstanding borrowings under our revolving bank credit facility. The following table reflects the proceeds from sales of securities we issued in 2007, 2006 and 2005, ($ in millions):

	2007		2006		2005	
	Total Proceeds	Net Proceeds	Total Proceeds	Net Proceeds	Total Proceeds	Net Proceeds
Unsecured senior notes	$ —	$ —	$ 1,799	$ 1,755	$ 2,300	$ 2,252
Contingent convertible unsecured senior notes	1,650	1,607	—	—	690	673
Convertible preferred stock	—	—	575	558	1,380	1,341
Common stock	—	—	1,800	1,759	1,025	986
Total	$ 1,650	$ 1,607	$ 4,174	$ 4,072	$ 5,395	$ 5,252

In December 2007, we sold a portion of our proved reserves and production in certain Chesapeake-operated producing assets in Kentucky and West Virginia. In this transaction, we sold a volumetric production payment (VPP) for proceeds of $1.1 billion, net of transaction costs.

We believe our cash flow from operations, in combination with the proceeds expected from our planned producing property monetizations and other asset sales and the $1 billion increase in capacity under our bank credit facility will provide us with sufficient liquidity to execute our business strategy without accessing the public capital markets for the foreseeable future. We intend to use any cash in excess of our operating and capital expenditure needs to pay down indebtedness under our revolving bank credit facility.

Our primary use of funds is on capital expenditures for exploration, development and acquisition of oil and natural gas properties. We refer you to the table under *Investing Transactions* below, which sets forth the components of our oil and natural gas investing activities for 2007, 2006 and 2005. Our drilling, land and seismic capital expenditures are currently budgeted at $5.9 billion to $6.5 billion in 2008. We believe this level of exploration and development will enable us to increase our proved oil and natural gas reserves by more than 14% in 2008 and increase our total production by 19% to 21% in 2008 (inclusive of acquisitions completed or scheduled to close in 2008 through the filing date of this report but without regard to any additional acquisitions that may be completed in 2008).

We retain a significant degree of control over the timing of our capital expenditures which permits us to defer or accelerate certain capital expenditures if necessary to address any potential liquidity issues. In addition, higher drilling and field operating costs, drilling results that alter planned development schedules, acquisitions or other factors could cause us to revise our drilling program, which is largely discretionary.

We paid dividends on our common stock of $115 million, $87 million and $60 million in 2007, 2006 and 2005, respectively. The Board of Directors increased the quarterly dividend on common stock from $0.06 to $0.0675 per share beginning with the dividend paid in July 2007. We paid dividends on our preferred stock of $95 million, $88 million and $31 million in 2007, 2006 and 2005, respectively.

In 2007, holders of our 5.0% (Series 2005) cumulative convertible preferred stock and 6.25% mandatory convertible preferred stock exchanged 4,535,880 shares and 2,156,184 shares for 19,038,891 and 17,367,823 shares of common stock, respectively, in public exchange offers. The exchange resulted in a loss on conversion of $128 million.

We received $15 million, $73 million and $21 million from the exercise of employee and director stock options in 2007, 2006 and 2005, respectively. We paid $86 million and $4 million to purchase treasury stock in 2006 and 2005, respectively. Of these amounts, $11 million and $4 million were used to fund our matching contribution to our 401(k) plans in 2006 and 2005, respectively. The remaining $75 million in 2006 was used to purchase shares of common stock to be used upon the exercise of stock options under certain stock option plans. There were no treasury stock purchases made in 2007.

In 2007, 2006 and 2005, we paid $91 million, $87 million and $12 million, respectively, to settle a portion of the derivative liabilities assumed in our 2005 acquisition of Columbia Natural Resources, LLC.

On January 1, 2006, we adopted SFAS 123(R), which requires tax benefits resulting from stock-based compensation deductions in excess of amounts reported for financial reporting purposes to be reported as cash flows from financing activities. In 2007 and 2006, we reported a tax benefit from stock-based compensation of $20 million and $88 million, respectively.

Outstanding payments from certain disbursement accounts in excess of funded cash balances where no legal right of set-off exists decreased by $98 million, increased by $70 million and increased by $61 million in 2007, 2006 and 2005, respectively. All disbursements are funded on the day they are presented to our bank using available cash on hand or draws on our revolving bank credit facility.

Historically, we have used significant funds to redeem or purchase and retire outstanding senior notes issued by Chesapeake, although we had no such transactions in 2007 and 2006. The following table shows our redemption, purchases and exchanges of senior notes for 2005 ($ in millions):

	Senior Notes Activity				
For the Year Ended December 31, 2005:	Retired	Premium	Other (a)	Issued	Cash Paid
8.375% Senior Notes due 2008	$ 19	$ 1	$ —	$—	$ 20
8.125% Senior Notes due 2011	245	17	1	—	263
9.0% Senior Notes due 2012	300	42	1	—	343
	$ 564	$ 60	$ 2	$—	$ 626

(a) Includes adjustments to accrued interest and discount associated with notes retired and new notes issued, cash in lieu of fractional notes, transaction costs and fair value hedging adjustments.

Our accounts receivable are primarily from purchasers of oil and natural gas ($798 million at December 31, 2007) and exploration and production companies which own interests in properties we operate ($175 million at December 31, 2007). This industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that our customers and joint working interest owners may be similarly affected by changes in economic, industry or other conditions. We generally require letters of credit for receivables from parties which are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated.

Investing Transactions

Cash used in investing activities decreased to $7.922 billion in 2007, compared to $8.942 billion in 2006 and $6.921 billion in 2005. Over the past year, we have accelerated our drilling program and shifted our acquisition strategy from significant stock and asset acquisitions to targeted leasehold and property acquisitions needed for planned oil and natural gas development. Our investing activities during 2007 reflected our increasing focus on converting our resource inventory into production as well as elements of our new financial plan. The following table shows our cash used in (provided by) investing activities during 2007, 2006 and 2005 ($ in millions):

Oil and Natural Gas Investing Activities:	2007	2006	2005
Acquisitions of oil and natural gas companies and proved properties, net of cash acquired	$ 520	$1,104	$2,759
Acquisition of leasehold and unproved properties	2,187	3,301	1,591
Exploration and development of oil and natural gas properties	4,962	3,009	1,793
Geological and geophysical costs	343	154	71
Interest on leasehold and unproved properties	254	172	76
Proceeds from sale of volumetric production payment	(1,089)	—	—
Deposits for acquisitions	15	21	35
Other oil and natural gas activities	—	—	(2)
Total oil and natural gas investing activities	7,192	7,761	6,323
Other Investing Activities:			
Additions to other property and equipment	1,310	594	417
Additions to drilling rig equipment	129	393	67
Proceeds from sale of drilling rigs and equipment	(369)	(244)	—
Proceeds from sale of compressors	(188)	—	—
Additions to investments	8	554	135
Proceeds from sale of investments	(124)	(159)	—
Acquisition of trucking company, net of cash acquired	—	45	—
Sale of non-oil and natural gas assets	(36)	(2)	(21)
Other	—	—	—
Total other investing activities	730	1,181	598
Total cash used in investing activities	$ 7,922	$8,942	$6,921

Bank Credit and Hedging Facilities

On November 2, 2007, we amended and restated our syndicated revolving bank credit facility to increase the borrowing base to $3.5 billion (with commitments of $3.0 billion) and extended the maturity to November 2012. We subsequently increased the commitments under the credit facility to $3.5 billion. As of December 31, 2007, we had $1.950 billion in outstanding borrowings under this facility and had utilized approximately $5 million of the facility for various letters of credit. Borrowings under the facility are secured by certain producing oil and natural gas properties and bear interest at our option of either (i) the greater of the reference rate of Union Bank of California, N.A., or the federal funds effective rate plus 0.50% or (ii) London Interbank Offered Rate (LIBOR), plus a margin that varies from 0.75% to 1.50% per annum according to our senior unsecured long-term debt ratings. The collateral value and borrowing base are redetermined periodically. The unused portion of the facility is subject to a commitment fee that also varies according to our senior unsecured long-term debt ratings, from 0.125% to 0.30% per annum. Currently the commitment fee is 0.20% per annum. Interest is payable quarterly or, if LIBOR applies, it may be payable at more frequent intervals. Our subsidiaries, Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C., are the borrowers under our revolving bank credit facility and Chesapeake and all its other wholly-owned subsidiaries except minor subsidiaries are guarantors.

The credit facility agreement contains various covenants and restrictive provisions which limit our ability to incur additional indebtedness, make investments or loans and create liens. The credit facility agreement requires us to maintain an indebtedness to total capitalization ratio (as defined) not to exceed 0.70 to 1 and an indebtedness to EBITDA ratio (as defined) not to exceed 3.75 to 1. As defined by the credit facility agreement, our indebtedness to total capitalization ratio was 0.48 to 1 and our indebtedness to EBITDA ratio was 2.16 to 1 at December 31, 2007. If we should fail to perform our obligations under these and other covenants, the revolving credit commitment could be terminated and any outstanding borrowings under the facility could be declared immediately due and payable. Such acceleration, if involving a principal amount of $10 million ($50 million in the case of our senior notes issued after 2004), would constitute an event of default under our senior note indentures which could in turn result in the acceleration of a significant portion of our senior note indebtedness. The credit facility agreement also has cross default provisions that apply to other indebtedness we may have with an outstanding principal amount in excess of $75 million.

We have six secured hedging facilities, each of which permits us to enter into cash-settled oil and natural gas commodity transactions, valued by the counterparty, for up to a maximum value. Outstanding transactions under each facility are collateralized by certain of our oil and natural gas properties that do not secure any of our other obligations. The hedging facilities are subject to an annual exposure fee, which is assessed quarterly based on the average of the daily negative fair value amounts of the hedges, if any, during the quarter. The hedging facilities contain the standard representations and default provisions that are typical of such agreements. The agreements also contain various restrictive provisions which govern the aggregate oil and natural gas production volumes that we are permitted to hedge under all of our agreements at any one time. The maximum permitted value of transactions under each facility and the fair value of outstanding transactions are shown below.

	Secured Hedging Facilities (a)					
	#1	#2	#3	#4	#5	#6
	($ in millions)					
Maximum permitted value of transactions under facility	$ 750	$ 500	$ 500	$ 250	$ 500	$ 500
Per annum exposure fee	1%	1%	1%	0.8%	0.8%	0.8%
Scheduled maturity date	2010	2010	2011	2012	2012	2012
Fair value of outstanding transactions, as of December 31, 2007	$ 1	$ (144)	$ (97)	$ (19)	$ (37)	$ (53)

(a) Chesapeake Exploration, L.L.C. is the named party to the facilities numbered 1-3 and Chesapeake Energy Corporation is the named party to the facilities numbered 4-6.

Our revolving bank credit facility and secured hedging facilities do not contain material adverse change or adequate assurance covenants. Although the applicable interest rates and commitment fees in our bank credit facility fluctuate slightly based on our long-term senior unsecured credit ratings, the bank facility and the secured hedging facilities do not contain provisions which would trigger an acceleration of amounts due under the facilities or a requirement to post additional collateral in the event of a downgrade of our credit ratings.

Senior Note Obligations

In addition to outstanding revolving bank credit facility borrowings discussed above, as of December 31, 2007, senior notes represented approximately $9.0 billion of our long-term debt and consisted of the following ($ in millions):

7.5% Senior Notes due 2013	$ 364
7.625% Senior Notes due 2013	500
7.0% Senior Notes due 2014	300
7.5% Senior Notes due 2014	300
7.75% Senior Notes due 2015	300
6.375% Senior Notes due 2015	600
6.625% Senior Notes due 2016	600
6.875% Senior Notes due 2016	670
6.5% Senior Notes due 2017	1,100
6.25% Euro-denominated Senior Notes due 2017 (a)	876
6.25% Senior Notes due 2018	600
6.875% Senior Notes due 2020	500
2.75% Contingent Convertible Senior Notes due 2035	690
2.5% Contingent Convertible Senior Notes due 2037	1,650
Discount on senior notes	(105)
Premium for interest rate derivatives	55
	$9,000

(a) The principal amount shown is based on the dollar/euro exchange rate of $1.4603 to €1.00 as of December 31, 2007. See Note 10 of our accompanying consolidated financial statements for information on our related cross currency swap.

No scheduled principal payments are required under our senior notes until 2013, when $864 million is due. The holders of the 2.75% Contingent Convertible Senior Notes due 2035 may require us to repurchase, in cash, all or a portion of these notes on November 15, 2015, 2020, 2025 and 2030 at 100% of the principal amount of the notes. The holders of the 2.5% Contingent Convertible Senior Notes due 2037 may require us to repurchase, in cash, all or a portion of these notes on May 15, 2017, 2022, 2027 and 2032 at 100% of the principal amount of the notes.

As of December 31, 2007 and currently, debt ratings for the senior notes are Ba3 by Moody’s Investor Service (negative outlook), BB by Standard & Poor’s Ratings Services (positive outlook) and BB by Fitch Ratings (negative outlook).

Our senior notes are unsecured senior obligations of Chesapeake and rank equally in right of payment with all of our other existing and future senior indebtedness and rank senior in right of payment to all of our future subordinated indebtedness. All of our wholly-owned subsidiaries, except minor subsidiaries, fully and unconditionally guarantee the notes jointly and severally on an unsecured basis. Senior notes issued before July 2005 are governed by indentures containing covenants that limit our ability and our restricted subsidiaries’ ability to incur additional indebtedness; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness; make investments and other restricted payments; incur liens; enter into sale/leaseback transactions; create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries; engage in transactions with affiliates; sell assets; and consolidate, merge or transfer assets. Senior notes issued after June 2005 are governed by indentures containing covenants that limit our ability and our restricted subsidiaries' ability to incur certain secured indebtedness; enter into sale-leaseback transactions; and consolidate, merge or transfer assets. The debt incurrence covenants do not presently restrict our ability to borrow under or expand our secured credit facility. As of December 31, 2007, we estimate that secured commercial bank indebtedness of approximately $4.9 billion could have been incurred under the most restrictive indenture covenant.

Contractual Obligations

The table below summarizes our contractual obligations as of December 31, 2007 ($ in millions):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Long term debt:					
Principal	$11,000	$ —	$ —	$1,950	$ 9,050
Interest	5,581	520	1,040	1,040	2,981
Capital lease obligations	8	4	4	—	—
Operating lease obligations	857	121	227	222	287
Asset retirement obligations (a)	236	8	16	4	208
Purchase obligations (b)	929	385	208	112	224
Unrecognized tax benefits (c)	133	—	69	64	—
Standby letters of credit	6	6	—	—	—
Total contractual cash obligations	$18,750	$ 1,044	$1,564	$3,392	$ 12,750

(a) Asset retirement obligations represent estimated discounted costs for future dismantlement and abandonment costs. These obligations are recorded as liabilities on our December 31, 2007 balance sheet.

(b) See Note 4 of the notes to our consolidated financial statements for a description of transportation and drilling contract commitments.

(c) See Note 5 of the notes to our consolidated financial statements for a description of unrecognized tax benefits.

Chesapeake has commitments to purchase the production associated with the December 31, 2007 sale of a volumetric production payment that extends over a 15 year term at market prices at the time of production and the purchased gas will be resold. The obligations are as follows:

	Mmcfe
2008	19,858
2009	18,601
2010	18,043
2011	16,251
2012	15,322
After 2012	119,949
Total	208,024

Hedging Activities

Oil and Natural Gas Hedging Activities

Our results of operations and operating cash flows are impacted by changes in market prices for oil and natural gas. To mitigate a portion of the exposure to adverse market changes, we have entered into various derivative instruments. Executive management is involved in all risk management activities and the Board of Directors reviews the company's hedging program at its quarterly Board meetings. We believe we have sufficient internal controls to prevent unauthorized hedging. As of December 31, 2007, our oil and natural gas derivative instruments were comprised of swaps, basis protection swaps, knockout swaps, cap-swaps, call options and collars. Item 7A—Quantitative and Qualitative Disclosures About Market Risk contains a description of each of these instruments. Although derivatives often fail to achieve 100% effectiveness for accounting purposes, we believe our derivative instruments continue to be highly effective in achieving the risk management objectives for which they were intended.

Hedging allows us to predict with greater certainty the effective prices we will receive for our hedged oil and natural gas production. We closely monitor the fair value of our hedging contracts and may elect to settle a contract prior to its scheduled maturity date in order to lock in a gain or loss. Commodity markets are volatile and Chesapeake's hedging activities are dynamic.

Mark-to-market positions under oil and natural gas hedging contracts fluctuate with commodity prices. As described above under *Bank Credit and Hedging Facilities*, we may be required to deliver cash collateral or other assurances of performance if our payment obligations to our hedging counterparties exceed levels stated in our contracts. Our realized and unrealized gains and losses on oil and natural gas derivatives during 2007, 2006 and 2005 were as follows:

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
Oil and natural gas sales	$4,795	$3,870	$3,633
Realized gains on oil and natural gas derivatives	1,203	1,254	(401)
Unrealized gains (losses) on non-qualifying oil and natural gas derivatives	(252)	184	117
Unrealized gains (losses) on ineffectiveness of cash flow hedges	(122)	311	(76)
Total oil and natural gas sales	$5,624	$5,619	$3,273

Changes in the fair value of oil and natural gas derivative instruments designated as cash flow hedges, to the extent effective in offsetting cash flows attributable to the hedged commodities, and locked-in gains and losses of derivative contracts are recorded in accumulated other comprehensive income and are transferred to earnings in the month of related production. These unrealized gains (losses), net of related tax effects, totaled $53 million, $546 million and ($271) million as of December 31, 2007, 2006 and 2005, respectively. Based upon the market prices at December 31, 2007, we expect to transfer to earnings approximately $127 million of the net gain included in the balance of accumulated other comprehensive income during the next 12 months. A detailed explanation of accounting for oil and natural gas derivatives under SFAS 133 appears under "Application of Critical Accounting Policies—Hedging" elsewhere in this Item 7.

The estimated fair values of our oil and natural gas derivative instruments as of December 31, 2007 and 2006 are provided below. The associated carrying values of these instruments are equal to the estimated fair values.

	December 31, 2007	December 31, 2006
	($ in millions)	
Derivative assets (liabilities):		
Fixed-price natural gas swaps	$ (54)	$ 1
Natural gas basis protection swaps	151	187
Fixed-price natural gas knockout swaps	108	122
Fixed-price natural gas counter-swaps	—	(5)
Natural gas call options (a)	(230)	(5)
Fixed-price natural gas collars (b)	4	(7)
Fixed-price oil swaps	(110)	28
Fixed-price oil cap-swaps	(17)	24
Fixed-price oil knockout swaps	(125)	—
Oil call options (c)	(96)	—
Estimated fair value	$ (369)	$ 345

(a) After adjusting for $255 million and $15 million of unrealized premiums, the cumulative unrealized gain related to these call options as of December 31, 2007 and 2006 was $25 million and $10 million, respectively.

(b) After adjusting for $8 million of unrealized discount, the cumulative unrealized loss related to these collars as of December 31, 2007 was $4 million.

(c) After adjusting for $29 million of unrealized premiums, the cumulative unrealized loss related to these call options as of December 31, 2007 was $67 million.

Additional information concerning the fair value of our oil and natural gas derivative instruments, including CNR derivatives assumed, is as follows:

	December 31, 2007	2006	2005
		($ in millions)	
Fair value of contracts outstanding, as of January 1	$ 345	$ (946)	$ 38
Change in fair value of contracts	972	3,423	(771)
Fair value of contracts when entered into	(295)	(32)	(614)
Contracts realized or otherwise settled	(1,203)	(1,254)	401
Fair value of contracts when closed	(188)	(846)	—
Fair value of contracts outstanding, as of December 31	$ (369)	$ 345	$(946)

Interest Rate Derivatives

We use interest rate derivatives to mitigate our exposure to the volatility in interest rates. For interest rate derivative instruments designated as fair value hedges (in accordance with SFAS 133), changes in fair value are recorded on the consolidated balance sheets as assets (liabilities), and the debt's carrying value amount is adjusted by the change in the fair value of the debt subsequent to the initiation of the derivative. Changes in the fair value of derivative instruments not qualifying as fair value hedges are recorded currently as adjustments to interest expense.

Gains or losses from derivative transactions are reflected as adjustments to interest expense on the consolidated statements of operations. Realized gains (losses) included in interest expense were ($1) million, ($2) million and $5 million in 2007, 2006 and 2005, respectively. Pursuant to SFAS 133, certain derivatives do not qualify for designation as fair value hedges. Changes in the fair value of these non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the consolidated statements of operations as unrealized gains (losses) within interest expense. Unrealized gains (losses) included in interest expense were ($40) million, $2 million and $2 million in 2007, 2006 and 2005, respectively. A detailed explanation of accounting for interest rate derivatives under SFAS 133 appears under "Application of Critical Accounting Policies—Hedging" elsewhere in this Item 7.

Foreign Currency Derivatives

On December 6, 2006, we issued €600 million of 6.25% Euro-denominated Senior Notes due 2017. Concurrent with the issuance of the Euro-denominated senior notes, we entered into a cross currency swap to mitigate our exposure to fluctuations in the euro relative to the dollar over the term of the notes. A detailed explanation of accounting for foreign currency derivatives under SFAS 133 appears under "Application of Critical Accounting Policies—Hedging" elsewhere in this Item 7.

Results of Operations

General. For the year ended December 31, 2007, Chesapeake had net income of $1.451 billion, or $2.62 per diluted common share, on total revenues of $7.800 billion. This compares to net income of $2.003 billion, or $4.35 per diluted common share, on total revenues of $7.326 billion during the year ended December 31, 2006, and net income of $948 million, or $2.51 per diluted common share, on total revenues of $4.665 billion during the year ended December 31, 2005.

Oil and Natural Gas Sales. During 2007, oil and natural gas sales were $5.624 billion compared to $5.619 billion in 2006 and $3.273 billion in 2005. In 2007, Chesapeake produced and sold 714.3 bcfe of oil and natural gas at a weighted average price of $8.40 per mcfe, compared to 578.4 bcfe in 2006 at a weighted average price of $8.86 per mcfe, and 468.6 bcfe in 2005 at a weighted average price of $6.90 per mcfe (weighted average prices for all years discussed exclude the effect of unrealized gains or (losses) on derivatives of ($374) million, $495 million and $41 million in 2007, 2006 and 2005, respectively). The decrease in prices in 2007 resulted in a decrease in revenue of $329 million and increased production resulted in a $1.203 billion increase, for a total increase in revenues of $874 million (excluding unrealized gains or losses on oil and natural gas derivatives). The increase in production from period to period was primarily generated from the drillbit.

For 2007, we realized an average price per barrel of oil of $67.50, compared to $59.14 in 2006 and $47.77 in 2005 (weighted average prices for all years discussed exclude the effect of unrealized gains or losses on derivatives). Natural gas prices realized per mcf (excluding unrealized gains or losses on derivatives) were $8.14, $8.76 and $6.78 in 2007, 2006 and 2005, respectively. Realized gains or losses from our oil and natural gas derivatives resulted in a net increase in oil and natural gas revenues of $1.203 billion or $1.68 per mcfe in 2007, a net increase of $1.254 billion or $2.17 per mcfe in 2006 and a net decrease of $401 million or $0.86 per mcfe in 2005.

A change in oil and natural gas prices has a significant impact on our oil and natural gas revenues and cash flows. Assuming 2007 production levels, a change of $0.10 per mcf of natural gas sold would result in an increase or decrease in revenues and cash flow of approximately $65 million and $63 million, respectively, and a change of $1.00 per barrel of oil sold would result in an increase or decrease in revenues and cash flow of approximately $10 million and $9 million, respectively, without considering the effect of hedging activities.

The following table shows our production by region for 2007, 2006 and 2005:

	Years Ended December 31,					
	2007		2006		2005	
	Mmcfe	Percent	Mmcfe	Percent	Mmcfe	Percent
Mid-Continent	373,941	52%	315,173	55%	297,773	64%
Barnett Shale	93,463	13	44,482	7	17,409	4
Appalachian Basin	47,922	7	45,031	8	5,878	1
Permian and Delaware Basins	64,897	9	48,510	8	42,958	9
Ark-La-Tex	55,811	8	46,009	8	40,707	9
South Texas and Texas Gulf Coast	78,228	11	79,178	14	63,852	13
Total Production	714,262	100%	578,383	100%	468,577	100%

Natural gas production represented approximately 92% of our total production volume on an equivalent basis in 2007, compared to 91% in 2006 and 90% in 2005.

Oil and Natural Gas Marketing Sales and Operating Expenses. Oil and natural gas marketing activities are substantially for third parties who are owners in Chesapeake-operated wells. Chesapeake realized $2.040 billion in oil and natural gas marketing sales to third parties in 2007, with corresponding oil and natural gas marketing expenses of $1.969 billion, for a net margin before depreciation of $71 million. This compares to sales of $1.577 billion and $1.392 billion, expenses of $1.522 billion and $1.358 billion, and margins before depreciation of $55 million and $35 million in 2006 and 2005, respectively. The net margin increase in 2007 and 2006 is primarily due to an increase in volumes and prices related to oil and natural gas marketing sales.

Service Operations Revenue and Operating Expenses. Service operations consist of third-party revenue and operating expenses related to our leased or owned drilling and oilfield trucking operations. These operations have grown as a result of assets and businesses we acquired in 2006 and 2007. Chesapeake recognized $136 million in service operations revenue in 2007 with corresponding service operations expenses of $94 million, for a net margin before depreciation of $42 million. This compares to revenue of $130 million, expenses of $68 million and a net margin before depreciation of $62 million in 2006. During 2005, service operations revenues and expenses for third parties were insignificant.

Production Expenses. Production expenses, which include lifting costs and ad valorem taxes, were $640 million in 2007, compared to $490 million and $317 million in 2006 and 2005, respectively. On a unit-of-production basis, production expenses were $0.90 per mcfe in 2007 compared to $0.85 and $0.68 per mcfe in 2006 and 2005, respectively. The increase in 2007 was primarily due to higher third-party field service costs, fuel costs and personnel costs. We expect that production expenses per mcfe produced for 2008 will range from $0.90 to $1.00.

Production Taxes. Production taxes were $216 million in 2007 compared to $176 million in 2006 and $208 million in 2005. On a unit-of-production basis, production taxes were $0.30 per mcfe in 2007 compared to $0.31 per mcfe in 2006 and $0.44 per mcfe in 2005. In 2006, $2 million was accrued for certain severance tax claims and was then offset by a subsequent reversal of the cumulative $12 million accrual for such severance tax claims as a result of their dismissal. After adjusting for these items, there was an increase of $30 million in production taxes from 2006 to 2007. The $30 million increase is mostly due to an increase in production of 136 bcfe.

In general, production taxes are calculated using value-based formulas that produce higher per unit costs when oil and natural gas prices are higher. We expect production taxes for 2008 to range from $0.32 to $0.37 per mcfe produced based on a NYMEX price of $76.49 per barrel of oil and natural gas wellhead prices ranging from $7.40 to $8.40 per mcf.

General and Administrative Expense. General and administrative expenses, including stock-based compensation but excluding internal costs capitalized to our oil and natural gas properties (see Note 11 of notes to consolidated financial statements), were $243 million in 2007, $139 million in 2006 and $64 million in 2005. General and administrative expenses were $0.34, $0.24 and $0.14 per mcfe for 2007, 2006 and 2005, respectively. The increase in 2007, 2006 and 2005 was the result of the company's overall growth as well as cost and wage inflation. Included in general and administrative expenses is stock-based compensation of $58 million in 2007, $27 million in 2006 and $15 million in 2005. The increase was mainly due to a higher number of unvested restricted shares outstanding during 2007 compared to 2006 and 2005. We anticipate that general and administrative expenses for 2008 will be between $0.33 and $0.37 per mcfe produced, including stock-based compensation ranging from $0.10 to $0.12 per mcfe produced.

Our stock-based compensation for employees and non-employee directors is in the form of restricted stock. Prior to 2004, stock-based compensation awards were only in the form of stock options. Employee stock-based compensation awards generally vest over a period of four or five years. Our non-employee director awards vest over a period of three years.

Until December 31, 2005, as permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, as amended, we accounted for our stock options under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Generally, we recognized no compensation cost on grants of employee and non-employee director stock options because the exercise price was equal to the market price of our common stock on the date of grant. Effective January 1, 2006, we implemented the fair value recognition provisions of SFAS 123(R), *Share-Based Payment*, using the modified-prospective transition method. For all unvested options outstanding as of January 1, 2006, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, was recognized in our financial statements over the remaining vesting period. For equity-based compensation awards granted or modified subsequent to January 1, 2006, compensation expense based on the fair value on the date of grant or modification is recognized in our financial statements over the vesting period. In addition, in accordance with Financial Accounting Standards Board Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, we elected to use the "short-cut" method to calculate the historical pool of windfall tax benefits. Results for prior periods have not been restated.

The discussion of stock-based compensation in Note 1 and Note 9 of the notes to consolidated financial statements included in Item 8 of this report provides additional detail on the accounting for and reporting of our stock options and restricted stock, as well as the effects of our adoption of SFAS 123(R).

Chesapeake follows the full-cost method of accounting under which all costs associated with property acquisition, exploration and development activities are capitalized. We capitalize internal costs that can be directly identified with our acquisition, exploration and development activities and do not include any costs related to production, general corporate overhead or similar activities. We capitalized $262 million, $161 million and $102 million of internal costs in 2007, 2006 and 2005, respectively, directly related to our oil and natural gas property acquisition, exploration and development efforts.

Oil and Natural Gas Depreciation, Depletion and Amortization. Depreciation, depletion and amortization of oil and natural gas properties was $1.835 billion, $1.359 billion and $894 million during 2007, 2006 and 2005, respectively. The average DD&A rate per mcfe, which is a function of capitalized costs, future development costs, and the related underlying reserves in the periods presented, was $2.57, $2.35 and $1.91 in 2007, 2006 and 2005, respectively. The increase in the average rate from $2.35 in 2006 to $2.57 in 2007 is primarily the result of higher drilling costs, higher costs associated with acquisitions and the recognition of the tax effect of acquisition costs in excess of tax basis acquired in certain corporate acquisitions. We expect the 2008 DD&A rate to be between $2.50 and $2.70 per mcfe produced.

Depreciation and Amortization of Other Assets. Depreciation and amortization of other assets was $154 million in 2007, compared to $104 million in 2006 and $51 million in 2005. The average D&A rate per mcfe was $0.22, $0.18 and $0.11 in 2007, 2006 and 2005, respectively. The increases in 2007 and 2006 were primarily the result of higher depreciation costs resulting from the acquisition of various gathering facilities, the construction of new buildings at our corporate headquarters complex and at various field office locations and additional information technology equipment and software. In 2006, increases were also attributed to the acquisition of compression equipment and drilling rigs. The overall increase in 2007 was partially mitigated by various sale/leaseback transactions throughout 2007 related to certain of our compressors and drilling rigs. Property and equipment costs are depreciated on a straight-line basis. Buildings are depreciated over 15 to 39 years, gathering facilities are depreciated over 20 years, drilling rigs are depreciated over 15 years and all other property and equipment are depreciated over the estimated useful lives of the assets, which range from two to seven years. To the extent company-owned drilling rigs were used to drill our wells in 2005 and 2006, a substantial portion of the rig depreciation was capitalized in oil and natural gas properties as exploration or development costs. As a result of the sale/leaseback of our company-owned rigs, we did not recognize rig depreciation in 2007. We expect 2008 depreciation and amortization of other assets to be between $0.20 and $0.24 per mcfe produced.

Employee Retirement Expense. Our President and Chief Operating Officer, Tom L. Ward, resigned as a director, officer and employee of the company effective February 10, 2006. Mr. Ward's Resignation Agreement provided for the immediate vesting of all of his unvested equity awards, which consisted of options to purchase 724,615 shares of Chesapeake's common stock at an average exercise price of $8.01 per share and 1,291,875 shares of restricted common stock. As a result of this vesting, we incurred an expense of $55 million in 2006.

Interest and Other Income. Interest and other income was $15 million, $26 million and $10 million in 2007, 2006 and 2005, respectively. The 2007 income consisted of $8 million of interest income and $7 million of miscellaneous income. Income related to equity investments was not significant in 2007. The 2006 income consisted of $5 million of interest income, $10 million of income related to equity investments, a $5 million gain on sale of assets and $6 million of miscellaneous income. The 2005 income consisted of $3 million of interest income, $2 million of income related to equity investment, and $5 million of miscellaneous income.

Interest Expense. Interest expense increased to $406 million in 2007 compared to $301 million in 2006 and $220 million in 2005 as follows:

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
Interest expense on senior notes and revolving bank credit facility	$ 616	$ 472	$ 300
Capitalized interest	(269)	(179)	(79)
Amortization of loan discount and other	17	7	6
Unrealized (gain) loss on interest rate derivatives	41	(1)	(2)
Realized (gain) loss on interest rate derivatives	1	2	(5)
Total interest expense	$ 406	$ 301	$ 220
Average long-term borrowings	$8,224	$6,278	$3,948

Interest expense, excluding unrealized (gains) losses on derivatives and net of amounts capitalized, was $0.51 per mcfe in 2007 compared to $0.52 per mcfe in 2006 and $0.47 per mcfe in 2005. We expect interest expense for 2008 to be between $0.50 and $0.55 per mcfe produced (before considering the effect of interest rate derivatives).

Gain on Sale of Investments. In 2007, we sold our 33% limited partnership interest in Eagle Energy Partners I, L.P., which we first acquired in 2003, for proceeds of $124 million and a gain of $83 million. In 2006, Chesapeake sold its investment in publicly-traded Pioneer Drilling Company common stock, realizing proceeds of $159 million and a gain of $117 million. We owned 17% of the common stock of Pioneer, which we began acquiring in 2003.

Loss on Repurchases or Exchanges of Chesapeake Senior Notes. In 2005, we repurchased or exchanged $564 million of Chesapeake debt in order to re-finance a portion of our long-term debt at a lower rate of interest and recognized a loss of $70 million. No such purchases or exchanges were completed in 2007 or 2006.

Income Tax Expense. Chesapeake recorded income tax expense of $890 million in 2007 compared to income tax expense of $1.252 billion in 2006 and $545 million in 2005. Of the $362 million decrease in 2007, $347 million was the result of the decrease in net income before taxes and $15 million was the result of a decrease in the effective tax rate. Our effective income tax rate was 38% in 2007 compared to 38.5% in 2006 and 36.5% in 2005. Our effective tax rate fluctuates as a result of the impact of state income taxes and permanent differences between our accounting for certain revenue or expense items and their corresponding treatment for income tax purposes. We expect our effective income tax rate to be 38.5% in 2008. Most of the 2007 income tax expense was deferred and we expect most of our 2008 income tax expense to be deferred.

Loss on Conversion/Exchange of Preferred Stock. Loss on conversion/exchange of preferred stock was $128 million in 2007 compared to $10 million in 2006 and $26 million in 2005. The loss on the exchanges represented the excess of the fair value of the common stock issued over the fair value of the securities issuable pursuant to the original conversion terms. See Note 9 of notes to the consolidated financial statements in Item 8 for further detail regarding these transactions.

Application of Critical Accounting Policies

Readers of this report and users of the information contained in it should be aware of how certain events may impact our financial results based on the accounting policies in place. The four policies we consider to be the most significant are discussed below. The company's management has discussed each critical accounting policy with the Audit Committee of the company's Board of Directors.

The selection and application of accounting policies is an important process that changes as our business changes and as accounting rules are developed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules and the use of judgment to the specific set of circumstances existing in our business.

Hedging. Chesapeake uses commodity price and financial risk management instruments to mitigate our exposure to price fluctuations in oil and natural gas, changes in interest rates and changes in foreign exchange rates. Recognized gains and losses on derivative contracts are reported as a component of the related transaction. Results of oil and natural gas derivative transactions are reflected in oil and natural gas sales, and results of interest rate and foreign exchange rate hedging transactions are reflected in interest expense. The changes in the fair value of derivative instruments not qualifying for designation as either cash flow or fair value hedges that occur prior to maturity are reported currently in the consolidated statement of operations as unrealized gains (losses) within oil and natural gas sales or interest expense. Cash flows from derivative instruments are classified in the same category within the statement of cash flows as the items being hedged, or on a basis consistent with the nature of the instruments.

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded at fair value and included in the consolidated balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception of a derivative. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Any change in the fair value resulting from ineffectiveness, as defined by SFAS 133, is recognized immediately in oil and natural gas sales. For derivative instruments designated as fair value hedges (in accordance with SFAS 133), changes in fair value, as well as the offsetting changes in the estimated fair value of the hedged item attributable to the hedged risk, are recognized currently in earnings. Differences between the changes in the fair values of the hedged item and the derivative instrument, if any, represent gains or losses on ineffectiveness and are reflected currently in interest expense. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time. Changes in fair value of contracts that do not qualify as hedges or are not designated as hedges are also recognized currently in earnings. See "Hedging Activities" above and Item 7A—Quantitative and Qualitative Disclosures About Market Risk for additional information regarding our hedging activities.

One of the primary factors that can have an impact on our results of operations is the method used to value our derivatives. We have established the fair value of all derivative instruments using estimates determined by our counterparties and subsequently confirmed the fair values internally using established index prices and other sources. These values are based upon, among other things, futures prices, volatility, time to maturity and credit risk. The values we report in our financial statements change as these estimates are revised to reflect actual results, changes in market conditions or other factors, many of which are beyond our control.

Another factor that can impact our results of operations each period is our ability to estimate the level of correlation between future changes in the fair value of the hedge instruments and the transactions being hedged, both at inception and on an ongoing basis. This correlation is complicated since energy commodity prices, the primary risk we hedge, have quality and location differences that can be difficult to hedge effectively. The factors underlying our estimates of fair value and our assessment of correlation of our hedging derivatives are impacted by actual results and changes in conditions that affect these factors, many of which are beyond our control.

Due to the volatility of oil and natural gas prices and, to a lesser extent, interest rates and foreign exchange rates, the company's financial condition and results of operations can be significantly impacted by changes in the market value of our derivative instruments. As of December 31, 2007, 2006 and 2005, the net market value of our derivatives was a liability of $375 million, an asset of $293 million and a liability of $968 million, respectively. The derivatives that we acquired in our CNR acquisition represented $184 million, $254 million and $661 million of liability at December 31, 2007, 2006 and 2005.

Oil and Natural Gas Properties. The accounting for our business is subject to special accounting rules that are unique to the oil and natural gas industry. There are two allowable methods of accounting for oil and natural gas business activities: the successful efforts method and the full-cost method. Chesapeake follows the full-cost method of accounting under which all costs associated with property acquisition, exploration and development activities are capitalized. We also capitalize internal costs that can be directly identified with our acquisition, exploration and development activities and do not include any costs related to production, general corporate overhead or similar activities.

Under the successful efforts method, geological and geophysical costs and costs of carrying and retaining undeveloped properties are charged to expense as incurred. Costs of drilling exploratory wells that do not result in proved reserves are charged to expense. Depreciation, depletion, amortization and impairment of oil and natural gas properties are generally calculated on a well by well or lease or field basis versus the aggregated "full cost" pool basis. Additionally, gain or loss is generally recognized on all sales of oil and natural gas properties under the successful efforts method. As a result, our financial statements will differ from companies that apply the successful efforts method since we will generally reflect a higher level of capitalized costs as well as a higher oil and natural gas depreciation, depletion and amortization rate, and we will not have exploration expenses that successful efforts companies frequently have.

Under the full-cost method, capitalized costs are amortized on a composite unit-of-production method based on proved oil and natural gas reserves. If we maintain the same level of production year over year, the depreciation, depletion and amortization expense may be significantly different if our estimate of remaining reserves changes significantly. Proceeds from the sale of properties are accounted for as reductions of capitalized costs unless such sales involve a significant change in the relationship between costs and the value of proved reserves or the underlying value of unproved properties, in which case a gain or loss is recognized. The costs of unproved properties are excluded from amortization until the properties are evaluated. We review all of our unevaluated properties quarterly to determine whether or not and to what extent proved reserves have been assigned to the properties, and otherwise if impairment has occurred. Unevaluated properties are grouped by major producing area where individual property costs are not significant and are assessed individually when individual costs are significant.

We review the carrying value of our oil and natural gas properties under the full-cost accounting rules of the Securities and Exchange Commission on a quarterly basis. This quarterly review is referred to as a ceiling test. Under the ceiling test, capitalized costs, less accumulated amortization and related deferred income taxes, may not exceed an amount equal to the sum of the present value of estimated future net revenues (adjusted for cash flow hedges) less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. In calculating future net revenues, current prices and costs used are those as of the end of the appropriate quarterly period. Such prices are utilized except where different prices are fixed and determinable from applicable contracts for the remaining term of those contracts, including the effects of derivatives qualifying as cash flow hedges. Two primary factors impacting this test are reserve levels and current prices, and their associated impact on the present value of estimated future net revenues. Revisions to estimates of natural gas and oil reserves and/or an increase or decrease in prices can have a material impact on the present value of estimated future net revenues. Any excess of the net book value, less deferred income taxes, is generally written off as an expense. Under SEC regulations, the excess above the ceiling is not expensed (or is reduced) if, subsequent to the end of the period, but prior to the release of the financial statements, oil and natural gas prices increase sufficiently such that an excess above the ceiling would have been eliminated (or reduced) if the increased prices were used in the calculations.

The process of estimating natural gas and oil reserves is very complex, requiring significant decisions in the evaluation of available geological, geophysical, engineering and economic data. The data for a given property may also change substantially over time as a result of numerous factors, including additional development activity, evolving production history and a continual reassessment of the viability of production under changing economic conditions. As a result, material revisions to existing reserve estimates occur from time to time. Although every reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various properties increase the likelihood of significant changes in these estimates.

As of December 31, 2007, approximately 79% of our proved reserves were evaluated by independent petroleum engineers, with the balance evaluated by our internal reservoir engineers. In addition, our internal engineers review and update our reserves on a quarterly basis. All reserve estimates are prepared based upon a review of production histories and other geologic, economic, ownership and engineering data we developed. Additional information about our 2007 year-end reserve evaluation is included under “Oil and Natural Gas Reserves” in Item 1—Business.

In addition, the prices of natural gas and oil are volatile and change from period to period. Price changes directly impact the estimated revenues from our properties and the associated present value of future net revenues. Such changes also impact the economic life of our properties and thereby affect the quantity of reserves that can be assigned to a property.

Income Taxes. As part of the process of preparing the consolidated financial statements, we are required to estimate the federal and state income taxes in each of the jurisdictions in which Chesapeake operates. This process involves estimating the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as derivative instruments, depreciation, depletion and amortization, and certain accrued liabilities for tax and accounting purposes. These differences and our net operating loss carryforwards result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess, using all available positive and negative evidence, the likelihood that the deferred tax assets will be recovered from future taxable income. If we believe that recovery is not likely, we must establish a valuation allowance. Generally, to the extent Chesapeake establishes a valuation allowance or increases or decreases this allowance in a period, we must include an expense or reduction of expense within the tax provisions in the consolidated statement of operations.

Under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, an enterprise must use judgment in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists (a) the more positive evidence is necessary and (b) the more difficult it is to support a conclusion that a valuation allowance is not needed for some portion or all of the deferred tax asset. Among the more significant types of evidence that we consider are:

- taxable income projections in future years,
- whether the carryforward period is so brief that it would limit realization of tax benefits,
- future sales and operating cost projections that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures, and
- our earnings history exclusive of the loss that created the future deductible amount coupled with evidence indicating that the loss is an aberration rather than a continuing condition.

If (a) natural gas and oil prices were to decrease significantly below present levels (and if such decreases were considered other than temporary), (b) exploration, drilling and operating costs were to increase significantly beyond current levels, or (c) we were confronted with any other significantly negative evidence pertaining to our ability to realize our NOL carryforwards prior to their expiration, we may be required to provide a valuation allowance against our deferred tax assets. As of December 31, 2007, we had deferred tax assets of $409 million.

FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109,* provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. Based on this guidance, we regularly analyze tax positions taken or expected to be taken in a tax return based on the threshold condition prescribed under FIN 48. Tax positions that do not meet or exceed this threshold condition are considered uncertain tax positions. We accrue interest related to these uncertain tax positions which is recognized in interest expense. Penalties, if any, related to uncertain tax positions would be recorded in other expenses. Additional information about uncertain tax positions appears in “Income Taxes” Item 1-Business.

Accounting for Business Combinations. Our business has grown substantially through acquisitions and our business strategy is to continue to pursue acquisitions as opportunities arise. We have accounted for all of our business combinations using the purchase method, which is the only method permitted under SFAS 141, *Accounting for Business Combinations*. The accounting for business combinations is complicated and involves the use of significant judgment.

Under the purchase method of accounting, a business combination is accounted for at its purchase price based upon the fair value of the consideration given, whether in the form of cash, assets, stock or the assumption of liabilities. The assets and liabilities acquired are measured at their fair values, and the purchase price is allocated to the assets and liabilities based upon these fair values. The excess of the cost of an acquired entity, if any, over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill.

The excess of the fair value of assets acquired and liabilities assumed over the cost of an acquired entity, if any, is allocated as a pro rata reduction of the amounts that otherwise would have been assigned to certain acquired assets.

Determining the fair values of the assets and liabilities acquired involves the use of judgment, since some of the assets and liabilities acquired do not have fair values that are readily determinable. Different techniques may be used to determine fair values, including market prices, where available, appraisals, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows, among others. Since these estimates involve the use of significant judgment, they can change as new information becomes available.

We believe that the consideration we have paid for our oil and natural gas property acquisitions has represented the fair value of the assets and liabilities acquired at the time of purchase. Consequently, we have not recognized any goodwill from any of our oil and natural gas property acquisitions, nor do we expect to recognize goodwill from similar business combinations that we may complete in the future.

Disclosures About Effects of Transactions with Related Parties

As of December 31, 2007, we had accrued accounts receivable from our CEO, Aubrey K. McClendon, of $18 million representing joint interest billings from December 2007 which were invoiced and timely paid in January 2008. Since Chesapeake was founded in 1989, Mr. McClendon has acquired working interests in virtually all of our oil and natural gas properties by participating in our drilling activities under the terms of the Founder Well Participation Program (“FWPP”) described below. Joint interest billings to him are settled in cash immediately upon delivery of a monthly joint interest billing.

Under the FWPP, approved by our shareholders in June 2005, Mr. McClendon (and our co-founder and former COO, Tom L. Ward, prior to August 10, 2006) may elect to participate in all or none of the wells drilled by or on behalf of Chesapeake during a calendar year, but he is not allowed to participate only in selected wells. A participation election is required to be received by the Compensation Committee of Chesapeake’s Board of Directors not less than 30 days prior to the start of each calendar year. His participation is permitted only under the terms outlined in the Founder Well Participation Program, which, among other things, limits his individual participation to a maximum working interest of 2.5% in a well and prohibits participation in situations where Chesapeake’s working interest would be reduced below 12.5% as a result of his participation. In addition, the company is reimbursed for costs associated with leasehold acquired by Mr. McClendon as a result of his well participation. Mr. Ward’s participation in the Founder Well Participation Program terminated on August 10, 2006.

As disclosed in Note 8, in 2007, Chesapeake had revenues of $1.1 billion from oil and natural gas sales to Eagle Energy Partners I, L.P., a former affiliated entity. We sold our 33% limited partnership interest in Eagle Energy in June 2007.

Recently Issued Accounting Standards

The Financial Accounting Standards Board (FASB) recently issued the following standards which were reviewed by Chesapeake to determine the potential impact on our financial statements upon adoption.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*. SFAS 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments we acquire or issue after December 31, 2006. Adoption of SFAS 155 did not have a material effect on our financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of the FSP. We are currently assessing the impact, if any, the adoption of this statement will have on our financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement expands the use of fair value measurement and applies to entities that elect the fair value option. The fair value option established by this statement permits all entities to choose to measure eligible items at fair value at specified election dates. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. We are currently assessing the impact, if any, the adoption of this statement will have on our financial position, results of operations or cash flows.

In November 2007, the FASB issued its preliminary views on financial instruments with characteristics of equity as a step preceding the development of a proposed Statement of Financial Accounting Standards. Such a standard would affect accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlements. This accounting could increase the amount of interest expense required to be recognized with respect to such instruments and, thus, lower reported net income and net income per share of issuers of such instruments. Issuers would have to account for the liability and equity components of the instrument separately and in a manner that reflects interest expense at the interest rate of similar nonconvertible debt. We have two debt series that would be affected by such a standard, our 2.75% Contingent Convertible Senior Notes due 2035 and our 2.5% Contingent Convertible Senior Notes due 2037. If the FASB adopts the statement, it is expected to be effective for fiscal years starting after December 15, 2007. Companies would have to apply the statement retrospectively to both existing and new instruments that fall within the scope of the guidance.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. This statement requires an entity to separately disclose non-controlling interests as a separate component of equity in the balance sheet and clearly identify on the face of the income statement net income related to non-controlling interests. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. We are currently assessing the impact, if any, the adoption of this statement will have on our financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. This statement requires assets acquired and liabilities assumed to be measured at fair value as of the acquisition date, acquisition-related costs incurred prior to the acquisition to be expensed and contractual contingencies to be recognized at fair value as of the acquisition date. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. We are currently assessing the impact, if any, the adoption of this statement will have on our financial position, results of operations or cash flows.

Forward-Looking Statements

This report includes "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 give our current expectations or forecasts of future events. They include statements regarding oil and natural gas reserve estimates, planned capital expenditures, the drilling of oil and natural gas wells and future acquisitions, expected oil and natural gas production, cash flow and anticipated liquidity, business strategy and other plans and objectives for future operations and expected future expenses. 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.

Although we believe the expectations and forecasts reflected in these and other forward-looking statements are reasonable, we can give no assurance they will prove to have been correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Factors that could cause actual results to differ materially from expected results are described under “Risk Factors” in Item 1A of this report and include:

- the volatility of oil and natural gas prices,
- our level of indebtedness,
- the strength and financial resources of our competitors,
- the availability of capital on an economic basis to fund reserve replacement costs,
- our ability to replace reserves and sustain production,
- uncertainties inherent in estimating quantities of oil and natural gas reserves and projecting future rates of production and the timing of development expenditures,
- uncertainties in evaluating oil and natural gas reserves of acquired properties and associated potential liabilities,
- inability to effectively integrate and operate acquired companies and properties,
- unsuccessful exploration and development drilling,
- declines in the value of our oil and natural gas properties resulting in ceiling test write-downs,
- lower prices realized on oil and natural gas sales and collateral required to secure hedging liabilities resulting from our commodity price risk management activities,
- the negative effect lower oil and natural gas prices could have on our ability to borrow,
- drilling and operating risks,
- adverse effects of governmental and environmental regulation, and
- losses possible from pending or future litigation.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this report and our other filings with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect our business.

ITEM 7A. *Quantitativeand Qualitative Disclosures About Market Risk*

Oil and Natural Gas Hedging Activities

Our results of operations and operating cash flows are impacted by changes in market prices for oil and natural gas. To mitigate a portion of the exposure to adverse market changes, we have entered into various derivative instruments. As of December 31, 2007, our oil and natural gas derivative instruments were comprised of swaps, basis protection swaps, knockout swaps, cap-swaps, call options and collars. These instruments allow us to predict with greater certainty the effective oil and natural gas prices to be received for our hedged production. Although derivatives often fail to achieve 100% effectiveness for accounting purposes, we believe our derivative instruments continue to be highly effective in achieving the risk management objectives for which they were intended.

- For swap instruments, Chesapeake receives a fixed price for the hedged commodity and pays a floating market price to the counterparty. The fixed-price payment and the floating-price payment are netted, resulting in a net amount due to or from the counterparty.
- Basis protection swaps are arrangements that guarantee a price differential for oil or natural gas from a specified delivery point. For Mid-Continent basis protection swaps, which have negative differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract. For Appalachian Basin basis protection swaps, which have positive differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is less than the stated terms of the contract and pays the counterparty if the price differential is greater than the stated terms of the contract.
- For knockout swaps, Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for the possibility to reduce the counterparty's exposure to zero, in any given month, if the floating market price is lower than certain pre-determined knockout prices.
- For cap-swaps, Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for a "cap" limiting the counterparty's exposure. In other words, there is no limit to Chesapeake's exposure but there is a limit to the downside exposure of the counterparty.
- For call options, Chesapeake receives a premium from the counterparty in exchange for the sale of a call option. If the market price exceeds the fixed price of the call option, Chesapeake pays the counterparty such excess. If the market price settles below the fixed price of the call option, no payment is due from Chesapeake.
- Collars contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, Chesapeake receives the fixed price and pays the market price. If the market price is between the call and the put strike price, no payments are due from either party.

Chesapeake enters into counter-swaps from time to time for the purpose of locking-in the value of a swap. Under the counter-swap, Chesapeake receives a floating price for the hedged commodity and pays a fixed price to the counterparty. The counter-swap is 100% effective in locking-in the value of a swap since subsequent changes in the market value of the swap are entirely offset by subsequent changes in the market value of the counter-swap. We refer to this locked-in value as a locked swap. Generally, at the time Chesapeake enters into a counter-swap, Chesapeake removes the original swap's designation as a cash flow hedge and classifies the original swap as a non-qualifying hedge under SFAS 133. The reason for this new designation is that collectively the swap and the counter-swap no longer hedge the exposure to variability in expected future cash flows. Instead, the swap and counter-swap effectively lock-in a specific gain (or loss) that will be unaffected by subsequent variability in oil and natural gas prices. Any locked-in gain or loss is recorded in accumulated other comprehensive income and reclassified to oil and natural gas sales in the month of related production.

With respect to counter-swaps that are designed to lock-in the value of cap-swaps, the counter-swap is effective in locking-in the value of the cap-swap until the floating price reaches the cap (or floor) stipulated in the cap-swap agreement. The value of the counter-swap will increase (or decrease), but in the opposite direction, as the value of the cap-swap decreases (or increases) until the floating price reaches the pre-determined cap (or floor) stipulated in the cap-swap agreement. However, because of the written put option embedded in the cap-swap, the changes in value of the cap-swap are not completely effective in offsetting changes in value of the corresponding counter-swap. Changes in the value of cap-swaps and counter-swaps are recorded as adjustments to oil and natural gas sales.

In accordance with FASB Interpretation No. 39, to the extent that a legal right of set-off exists, Chesapeake nets the value of its derivative arrangements with the same counterparty in the accompanying consolidated balance sheets.

Gains or losses from certain derivative transactions are reflected as adjustments to oil and natural gas sales on the consolidated statements of operations. Realized gains (losses) are included in oil and natural gas sales in the month of related production. Pursuant to SFAS 133, certain derivatives do not qualify for designation as cash flow hedges. Changes in the fair value of these non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the consolidated statements of operations as unrealized gains (losses) within oil and natural gas sales. Following provisions of SFAS 133, changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributable to the hedged risk, are recorded in other comprehensive income until the hedged item is recognized in earnings. Any change in fair value resulting from ineffectiveness is recognized currently in oil and natural gas sales as unrealized gains (losses). The components of oil and natural gas sales for the years ended December 31, 2007, 2006 and 2005 are presented below.

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
Oil and natural gas sales	$4,795	$3,870	$3,633
Realized gains on oil and natural gas derivatives	1,203	1,254	(401)
Unrealized gains (losses) on non-qualifying oil and natural gas derivatives	(252)	184	117
Unrealized gains (losses) on ineffectiveness of cash flow hedges	(122)	311	(76)
Total oil and natural gas sales	$5,624	$5,619	$3,273

As of December 31, 2007, we had the following open oil and natural gas derivative instruments (excluding derivatives assumed through our acquisition of CNR in November 2005) designed to hedge a portion of our oil and natural gas production for periods after December 2007:

	Volume	Weighted Average Fixed Price to be Received (Paid)	Weighted Average Put Fixed Price	Weighted Average Call Fixed Price	Weighted Average Differential	SFAS 133 Hedge	Net Premiums ($ in millions)	Fair Value at December 31, 2007 ($ in millions)
Natural Gas (bbtu):								
Swaps:								
1Q 2008	110,665	$ 8.56	$ —	$ —	$ —	Yes	$ —	$ 118
2Q 2008	57,425	7.93	—	—	—	Yes	—	18
3Q 2008	56,133	8.06	—	—	—	Yes	—	11
4Q 2008	53,770	8.62	—	—	—	Yes	—	14
2009	57,062	8.22	—	—	—	Yes	—	(17)
2010	10,199	7.86	—	—	—	Yes	—	(7)
2011 – 2022	148	7.65	—	—	—	Yes	—	—
Basis Protection Swaps (Mid-Continent):								
1Q 2008	33,215	—	—	—	(0.30)	No	—	21
2Q 2008	26,845	—	—	—	(0.25)	No	—	24
3Q 2008	27,140	—	—	—	(0.25)	No	—	20
4Q 2008	31,410	—	—	—	(0.28)	No	—	30
2009	86,600	—	—	—	(0.29)	No	—	58
2012	10,700	—	—	—	(0.34)	No	—	2
Basis Protection Swaps (Appalachian Basin):								
1Q 2008	5,622	—	—	—	0.32	No	—	(1)
2Q 2008	5,783	—	—	—	0.33	No	—	—
3Q 2008	5,763	—	—	—	0.33	No	—	—
4Q 2008	5,840	—	—	—	0.33	No	—	—
2009	16,912	—	—	—	0.28	No	—	(1)
2010	10,199	—	—	—	0.26	No	—	(1)
2011	12,086	—	—	—	0.25	No	—	(1)
2012 – 2022	134	—	—	—	0.11	No	—	—
Other Swaps:								
1Q 2008	6,370	$ 7.89	$ —	$ —	$ —	No	$ —	$ 3
2Q 2008	6,050	8.47	—	—	—	No	—	5
3Q 2008	4,600	8.73	—	—	—	No	—	4
4Q 2008	4,600	8.73	—	—	—	No	—	2
2009 (a)	22,750	8.73	—	—	—	No	—	(14)
2010 (a)	18,250	8.73	—	—	—	No	—	(16)
Knockout Swaps:								
1Q 2008	8,190	10.83	5.94	—	—	No	—	27
2Q 2008	60,380	9.15	6.21	—	—	No	—	52
3Q 2008	62,560	9.32	6.21	—	—	No	—	28
4Q 2008	55,240	9.91	6.20	—	—	No	—	19
2009	152,350	9.33	6.13	—	—	No	—	(18)
Call Options:								
1Q 2008	9,600	—	—	10.27	—	No	16	—
2Q 2008	31,850	—	—	10.25	—	No	20	(4)
3Q 2008	32,200	—	—	10.25	—	No	21	(10)
4Q 2008	30,980	—	—	10.26	—	No	20	(21)
2009	119,500	—	—	11.12	—	No	73	(66)
2010	83,950	—	—	10.00	—	No	56	(69)
2011	65,700	—	—	10.11	—	No	46	(55)
2012	7,320	—	—	11.00	—	No	3	(5)
Collars:								
1Q 2008	7,590	—	7.32	9.17	—	Yes	—	2
2Q 2008	2,730	—	7.50	9.68	—	Yes	—	1
3Q 2008	2,760	—	7.50	9.68	—	Yes	—	1
4Q 2008	2,760	—	7.50	9.68	—	Yes	—	—
Other Collars:								
1Q 2008	10,920	—	7.40/5.46	9.35	—	No	—	4
2009	27,375	—	7.97/5.83	11.18	—	No	(8)	5
Total Natural Gas							247	163

	Volume	Weighted Average Fixed Price to be Received (Paid)	Weighted Average Put Fixed Price	Weighted Average Call Fixed Price	Weighted Average Differential	SFAS 133 Hedge	Net Premiums ($ in millions)	Fair Value at December 31, 2007 ($ in millions)
Oil (mbbls):								
Swaps:								
1Q 2008	1,152	70.32	—	—	—	Yes	—	(29)
2Q 2008	1,183	70.25	—	—	—	Yes	—	(28)
3Q 2008	1,196	69.94	—	—	—	Yes	—	(26)
4Q 2008	828	69.47	—	—	—	Yes	—	(17)
2009	548	67.77	—	—	—	Yes	—	(10)
Knockout Swaps:								
1Q 2008	546	74.97	53.58	—	—	No	—	(11)
2Q 2008	546	75.16	53.58	—	—	No	—	(10)
3Q 2008	552	75.29	53.58	—	—	No	—	(10)
4Q 2008	736	76.69	55.19	—	—	No	—	(11)
2009	7,483	82.62	58.12	—	—	No	—	(63)
2010	3,650	86.25	60.00	—	—	No	—	(20)
Cap-Swaps:								
1Q 2008	273	77.60	55.00	—	—	No	—	(5)
2Q 2008	273	77.60	55.00	—	—	No	—	(4)
3Q 2008	276	77.60	55.00	—	—	No	—	(4)
4Q 2008	276	77.60	55.00	—	—	No	—	(4)
Call Options:								
1Q 2008	455	—	—	—	81.00	No	1	(7)
2Q 2008	637	—	—	—	83.57	No	2	(8)
3Q 2008	644	—	—	—	83.57	No	2	(8)
4Q 2008	828	—	—	—	81.67	No	3	(11)
2009	2,190	—	—	—	75.00	No	12	(35)
2010	1,825	—	—	—	75.00	No	9	(27)
Total Oil							29	(348)
Total Natural Gas and Oil							$ 276	$ (185)

(a) These include options to extend an existing swap for an additional 12 months at 50,000 mmbtu/day at $8.73/mmbtu. The options are callable by the counterparty in March 2009 and March 2010.

In 2006 and 2007, Chesapeake lifted or assigned a portion of its 2008 through 2022 hedges and has approximately $215 million of deferred hedging gains as of December 31, 2007. These gains have been recorded in accumulated other comprehensive income or as an unrealized gain in oil and natural gas sales. For amounts originally recorded in other comprehensive income, the gain will be recognized in oil and natural gas sales in the month of the hedged production.

We assumed certain liabilities related to open derivative positions in connection with our acquisition of Columbia Natural Resources, LLC in November 2005. In accordance with SFAS 141, these derivative positions were recorded at fair value in the purchase price allocation as a liability of $592 million. The recognition of the derivative liability and other assumed liabilities resulted in an increase in the total purchase price which was allocated to the assets acquired. Because of this accounting treatment, only cash settlements for changes in fair value subsequent to the acquisition date for the derivative positions assumed result in adjustments to our oil and natural gas revenues upon settlement. For example, if the fair value of the derivative positions assumed does not change, then upon the sale of the underlying production and corresponding settlement of the derivative positions, cash would be paid to the counterparties and there would be no adjustment to oil and natural gas revenues related to the derivative positions. If, however, the actual sales price is different from the price assumed in the original fair value calculation, the difference would be reflected as either a decrease or increase in oil and natural gas revenues, depending upon whether the sales price was higher or lower, respectively, than the prices assumed in the original fair value calculation. For accounting purposes, the net effect of these acquired hedges is that we hedged the production volumes at market prices on the date of our acquisition of CNR.

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Pursuant to Statement of Financial Accounting Standards No. 149, *Amendment of SFAS 133 on Derivative Instruments and Hedging Activities*, the derivative instruments assumed in connection with the CNR acquisition are deemed to contain a significant financing element and all cash flows associated with these positions are reported as financing activity in the statement of cash flows for the periods in which settlement occurs.

The following details the assumed CNR derivatives remaining as of December 31, 2007:

	Volume	Weighted Average Fixed Price to be Received (Paid)	Weighted Average Put Fixed Price	Weighted Average Call Fixed Price	SFAS 133 Hedge	Fair Value at December 31, 2007 ($ in millions)
Natural Gas (bbtu):						
Swaps:						
1Q 2008	9,555	$ 4.68	$ —	$ —	Yes	$ (25)
2Q 2008	9,555	4.68	—	—	Yes	(28)
3Q 2008	9,660	4.68	—	—	Yes	(30)
4Q 2008	9,660	4.66	—	—	Yes	(35)
2009	18,250	5.18	—	—	Yes	(57)
Collars:						
2009	3,650	—	4.50	6.00	Yes	(9)
Total Natural Gas						$ (184)

We have established the fair value of all derivative instruments using estimates of fair value reported by our counterparties and subsequently evaluated internally using established index prices and other sources. The actual contribution to our future results of operations will be based on the market prices at the time of settlement and may be more or less than the fair value estimates used at December 31, 2007.

Based upon the market prices at December 31, 2007, we expect to transfer approximately $127 million (net of income taxes) of the gain included in the balance in accumulated other comprehensive income to earnings during the next 12 months in the related month of production. All transactions hedged as of December 31, 2007 are expected to mature by December 31, 2022.

Additional information concerning the fair value of our oil and natural gas derivative instruments, including CNR derivatives assumed, is as follows:

	December 31, 2007	2006	2005
	($ in millions)		
Fair value of contracts outstanding, as of January 1	$ 345	$ (946)	$ 38
Change in fair value of contracts	972	3,423	(771)
Fair value of contracts when entered into	(295)	(32)	(614)
Contracts realized or otherwise settled	(1,203)	(1,254)	401
Fair value of contracts when closed	(188)	(846)	—
Fair value of contracts outstanding, as of December 31	$ (369)	$ 345	$(946)

The change in the fair value of our derivative instruments since January 1, 2007 resulted from new contracts entered into, the settlement of derivatives for a realized gain, as well as an increase in natural gas prices. Derivative instruments reflected as current in the consolidated balance sheet represent the estimated fair value of derivative instrument settlements scheduled to occur over the subsequent twelve-month period based on market prices for oil and natural gas as of the consolidated balance sheet date. The derivative settlement amounts are not due and payable until the month in which the related underlying hedged transaction occurs.

Interest Rate Risk

The table below presents principal cash flows and related weighted average interest rates by expected maturity dates. As of December 31, 2007, the fair value of the fixed-rate long-term debt has been estimated based on quoted market prices.

	Years of Maturity							
	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
	($ in billions)							
Liabilities:								
Long-term debt—fixed-rate (a)	$—	$—	$—	$—	$ —	$ 9.050	$9.050	$ 9.179
Average interest rate	—	—	—	—	—	5.8%	5.8%	5.8%
Long-term debt—variable rate	$—	$—	$—	$—	$1.950	$ —	$1.950	$ 1.950
Average interest rate	—	—	—	—	5.8%	—	5.8%	5.8%

(a) This amount does not include the discount included in long-term debt of ($105) million and the impact of interest rate derivatives of $55 million.

Changes in interest rates affect the amount of interest we earn on our cash, cash equivalents and short-term investments and the interest rate we pay on borrowings under our revolving bank credit facility. All of our other long-term indebtedness is fixed rate and, therefore, does not expose us to the risk of earnings or cash flow loss due to changes in market interest rates. However, changes in interest rates do affect the fair value of our debt.

Interest Rate Derivatives

We use interest rate derivatives to mitigate our exposure to the volatility in interest rates. For interest rate derivative instruments designated as fair value hedges (in accordance with SFAS 133), changes in fair value are recorded on the consolidated balance sheets as assets (liabilities), and the debt's carrying value amount is adjusted by the change in the fair value of the debt subsequent to the initiation of the derivative. Changes in the fair value of derivative instruments not qualifying as fair value hedges are recorded currently as adjustments to interest expense.

Gains or losses from derivative transactions are reflected as adjustments to interest expense in the consolidated statements of operations. Realized gains (losses) included in interest expense were ($1) million, ($2) million and $5 million in 2007, 2006 and 2005, respectively. Pursuant to SFAS 133, certain derivatives do not qualify for designation as fair value hedges. Changes in the fair value of these non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the consolidated statements of operations as unrealized gains (losses) within interest expense. Unrealized gains (losses) included in interest expense were ($40) million, $2 million and $2 million in 2007, 2006 and 2005, respectively.

As of December 31, 2007, the following derivatives were outstanding:

	Notional Amount ($ in millions)	Weighted Average Fixed Rate	Weighted Average Floating Rate	Weighted Average Cap/Floor Rate	Fair Value Hedge	Net Premiums ($ in millions)	Fair Value ($ in millions)
Fixed to Floating Swaps:							
July 2005 – January 2018	$ 1,500	6.750%	6 month LIBOR plus 164 basis points	—	Yes	$ —	$ 28
September 2004 – July 2013	$ 325	7.942%	6 month LIBOR plus 297 basis points	—	No	—	9
Floating to Fixed Swaps:							
August 2007 – July 2010	$ 750	4.803%	3 month LIBOR	—	No	—	(14)
Call Options:							
August 2007 – February 2008	$ 750	6.875%	—	—	No	6	(32)
Collars:							
August 2007 – August 2010	$ 1,075	—	—	5.37% – 4.32%	No	—	(20)
						$ 6	$ (29)

In 2007, we sold call options on six of our interest rate swaps and received $11 million in premiums. Two of the options expired unexercised in 2007.

In 2007, we closed ten interest rate swaps for a gain totaling $18 million. These interest rate swaps were designated as fair value hedges, and the settlement amounts received will be amortized as a reduction to realized interest expense over the remaining term of the related senior notes.

Foreign Currency Derivatives

On December 6, 2006, we issued €600 million of 6.25% Euro-denominated Senior Notes due 2017. Concurrent with the issuance of the Euro-denominated senior notes, we entered into a cross currency swap to mitigate our exposure to fluctuations in the euro relative to the dollar over the term of the notes. Under the terms of the cross currency swap, on each semi-annual interest payment date, the counterparties will pay Chesapeake €19 million and Chesapeake will pay the counterparties $30 million, which will yield an annual dollar-equivalent interest rate of 7.491%. Upon maturity of the notes, the counterparties will pay Chesapeake €600 million and Chesapeake will pay the counterparties $800 million. The terms of the cross currency swap were based on the dollar/euro exchange rate on the issuance date of $1.3325 to €1.00. Through the cross currency swap, we have eliminated any potential variability in Chesapeake’s expected cash flows related to changes in foreign exchange rates and therefore the swap qualifies as a cash flow hedge under SFAS 133. The euro-denominated debt is recorded in notes payable ($876 million at December 31, 2007) using an exchange rate of $1.4603 to €1.00. The fair value of the cross currency swap is recorded on the consolidated balance sheet as an asset of $23 million at December 31, 2007. The translation adjustment to notes payable is completely offset by the fair value of the cross currency swap and therefore there is no impact to the consolidated statement of operations. The remaining value of the cross currency swap related to future interest payments is reported in other comprehensive income.

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ITEM 8. ***Financial Statements and Supplementary Data***

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CHESAPEAKE ENERGY CORPORATION

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

It is the responsibility of the management of Chesapeake Energy Corporation to establish and maintain adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Management utilized the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control—Integrated Framework* (COSO framework) in conducting the required assessment of effectiveness of the Company's internal control over financial reporting.

Management has performed an assessment of the effectiveness of the Company's internal control over financial reporting and has determined the Company's internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Aubrey K. McClendon
Chairman and Chief Executive Officer

Marcus C. Rowland
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Chesapeake Energy Corporation:

In our opinion, the accompanying consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Chesapeake Energy Corporation and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing in Item 8. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Tulsa, Oklahoma

February 29, 2008

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
	($ in millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1	$ 3
Accounts receivable	1,074	845
Short-term derivative instruments	203	225
Deferred income taxes	1	—
Inventory	87	58
Other	30	23
Total Current Assets	1,396	1,154
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, at cost based on full-cost accounting:		
Evaluated oil and natural gas properties	27,656	21,949
Unevaluated properties	5,641	3,797
Less: accumulated depreciation, depletion and amortization of oil and natural gas properties	(7,112)	(5,292)
Total oil and natural gas properties, at cost based on full-cost accounting	26,185	20,454
Other property and equipment:		
Natural gas gathering systems and treating plants	1,135	552
Buildings and land	816	429
Drilling rigs and equipment	106	301
Natural gas compressors	63	127
Other	327	241
Less: accumulated depreciation and amortization of other property and equipment	(295)	(200)
Total Other Property and Equipment	2,152	1,450
Total Property and Equipment	28,337	21,904
OTHER ASSETS:		
Investments	612	699
Long-term derivative instruments	4	339
Other assets	385	321
Total Other Assets	1,001	1,359
TOTAL ASSETS	$30,734	$24,417

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS—(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2007	December 31, 2006
	($ in millions)	
CURRENT LIABILITIES:		
Accounts payable	$ 1,262	$ 860
Short-term derivative instruments	174	112
Accrued liabilities	717	419
Deferred income taxes	—	39
Revenues and royalties due others	433	318
Accrued interest	175	142
Total Current Liabilities	2,761	1,890
LONG-TERM LIABILITIES:		
Long-term debt, net	10,950	7,376
Deferred income tax liabilities	3,966	3,317
Asset retirement obligations	236	193
Long-term derivative instruments	408	160
Revenues and royalties due others	42	30
Other liabilities	241	200
Total Long-Term Liabilities	15,843	11,276
CONTINGENCIES AND COMMITMENTS (Note 4)		
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.01 par value, 20,000,000 shares authorized:		
4.125% cumulative convertible preferred stock, 3,062 and 3,065 shares issued and outstanding as of December 31, 2007 and 2006, respectively, entitled in liquidation to $3 million	3	3
5.00% cumulative convertible preferred stock (Series 2005), 5,000 shares and 4,600,000 shares issued and outstanding as of December 31, 2007 and 2006, entitled in liquidation to $1 million and $460 million	1	460
4.50% cumulative convertible preferred stock, 3,450,000 shares issued and outstanding as of December 31, 2007 and 2006, entitled in liquidation to $345 million	345	345
5.00% cumulative convertible preferred stock (Series 2005B) 5,750,000 shares issued and outstanding as of December 31, 2007 and 2006, entitled in liquidation to $575 million	575	575
6.25% mandatory convertible preferred stock, 143,768 and 2,300,000 shares issued and outstanding as of December 31, 2007 and 2006, respectively, entitled in liquidation to $36 million and $575 million	36	575
Common Stock, $.01 par value, 750,000,000 shares authorized, 511,648,217 and 458,600,789 shares issued December 31, 2007 and 2006, respectively	5	5
Paid-in capital	7,032	5,873
Retained earnings	4,150	2,913
Accumulated other comprehensive income (loss), net of tax of $6 million and ($319) million, respectively	(11)	528
Less: treasury stock, at cost; 500,821 and 1,167,007 common shares as of December 31, 2007 and 2006, respectively	(6)	(26)
Total Stockholders' Equity	12,130	11,251
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$30,734	$24,417

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

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2007	2006	2005
	($ in millions, except per share data)		
REVENUES:			
Oil and natural gas sales	$ 5,624	$ 5,619	$ 3,273
Oil and natural gas marketing sales	2,040	1,577	1,392
Service operations revenue	136	130	—
Total Revenues	7,800	7,326	4,665
OPERATING COSTS:			
Production expenses	640	490	317
Production taxes	216	176	208
General and administrative expenses	243	139	64
Oil and natural gas marketing expenses	1,969	1,522	1,358
Service operations expense	94	68	—
Oil and natural gas depreciation, depletion and amortization	1,835	1,359	894
Depreciation and amortization of other assets	154	104	51
Employee retirement expense	—	55	—
Total Operating Costs	5,151	3,913	2,892
INCOME FROM OPERATIONS	2,649	3,413	1,773
OTHER INCOME (EXPENSE):			
Interest and other income	15	26	10
Interest expense	(406)	(301)	(220)
Gain on sale of investment	83	117	—
Loss on repurchases or exchanges of Chesapeake senior notes	—	—	(70)
Total Other Income (Expense)	(308)	(158)	(280)
INCOME BEFORE INCOME TAXES	2,341	3,255	1,493
INCOME TAX EXPENSE:			
Current	29	5	—
Deferred	861	1,247	545
Total Income Tax Expense	890	1,252	545
NET INCOME	1,451	2,003	948
PREFERRED STOCK DIVIDENDS	(94)	(89)	(42)
LOSS ON CONVERSION/EXCHANGE OF PREFERRED STOCK	(128)	(10)	(26)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 1,229	$ 1,904	$ 880
EARNINGS PER COMMON SHARE:			
Basic	$ 2.69	$ 4.78	$ 2.73
Assuming dilution	$ 2.62	$ 4.35	$ 2.51
CASH DIVIDEND DECLARED PER COMMON SHARE	$ 0.2625	$ 0.23	$ 0.195
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):			
Basic	456	398	322
Assuming dilution	487	459	367

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

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2007	2006	2005
	($ in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME	$ 1,451	$ 2,003	$ 948
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation, depletion, and amortization	1,971	1,449	936
Deferred income taxes	835	1,252	545
Unrealized (gains) losses on derivatives	415	(497)	(43)
Amortization of loan costs and bond discount	26	21	15
Realized (gains) losses on financing derivatives	(92)	(136)	—
Stock-based compensation	84	84	15
Gain on sale of investments	(83)	(117)	—
Income from equity investments `	—	(10)	—
Loss on repurchases or exchanges of Chesapeake senior notes	—	—	70
Premiums paid for repurchasing of senior notes	—	—	(60)
Other	—	(4)	—
(Increase) decrease in accounts receivable	(192)	(22)	(205)
(Increase) decrease in inventory and other assets	(65)	(126)	(67)
Increase (decrease) in accounts payable, accrued liabilities and other	456	1,020	92
Increase (decrease) in current and non-current revenues and royalties due others	126	(74)	161
Cash provided by operating activities	4,932	4,843	2,407
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of oil and natural gas companies, proved and unproved properties, net of cash acquired	(2,961)	(3,960)	(4,135)
Exploration and development of oil and natural gas properties	(5,305)	(3,779)	(2,162)
Additions to other property and equipment	(1,310)	(594)	(417)
Additions to drilling rig equipment	(129)	(393)	(67)
Additions to investments	(8)	(554)	(135)
Acquisition of trucking company, net of cash acquired	—	(45)	—
Proceeds from sale of volumetric production payment	1,089	—	—
Proceeds from sale of investments	124	159	—
Proceeds from sale of drilling rigs and equipment	369	244	—
Proceeds from sale of compressors	188	—	—
Deposits for acquisitions	(15)	(22)	(35)
Divestitures of oil and natural gas properties	—	—	10
Sale of non-oil and natural gas assets	36	2	20
Cash used in investing activities	(7,922)	(8,942)	(6,921)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term borrowings	7,932	8,370	5,682
Payments on long-term borrowings	(6,160)	(8,264)	(5,765)
Proceeds from issuance of senior notes, net of offering costs	1,607	1,755	2,925
Proceeds from issuance of common stock, net of offering costs	—	1,759	986
Proceeds from issuance of preferred stock, net of offering costs	—	558	1,341
Cash paid to purchase or exchange Chesapeake senior notes	—	—	(566)
Cash paid for common stock dividends	(115)	(87)	(60)
Cash paid for preferred stock dividends	(95)	(88)	(31)
Cash paid for financing cost of credit facilities	(3)	(5)	(5)
Cash paid for treasury stock	—	(86)	(4)
Derivative settlements	(91)	(87)	(12)
Net increase (decrease) in outstanding payments in excess of cash balance	(98)	70	61
Cash received from exercise of stock options	15	73	21
Excess tax benefit from stock-based compensation	20	88	—
Other financing costs	(24)	(14)	(6)
Cash provided by financing activities	2,988	4,042	4,567
Net increase (decrease) in cash and cash equivalents	(2)	(57)	53
Cash and cash equivalents, beginning of period	3	60	7
Cash and cash equivalents, end of period	$ 1	$ 3	$ 60

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION OF CASH PAYMENTS FOR:			
Interest, net of capitalized interest	$ 315	$ 273	$ 175
Income taxes, net of refunds received	$ 55	$ —	$ —

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

As of December 31, 2007, 2006 and 2005, dividends payable on our common and preferred stock were $53 million, $53 million and $38 million, respectively.

In 2007, 2006 and 2005, oil and natural gas properties were adjusted by $131 million, $180 million and $252 million, respectively, for net income tax liabilities related to acquisitions.

During 2007, 2006 and 2005, accrued exploration and development costs of $97 million, $85 million and $27 million, respectively, were recorded as additions to oil and natural gas properties.

We recorded non-cash asset additions to net oil and natural gas properties of $29 million, $23 million and $77 million in 2007, 2006 and 2005, respectively, for asset retirement obligations.

In 2007, holders of our 5.0% (Series 2005) cumulative convertible preferred stock and 6.25% mandatory convertible preferred stock exchanged 4,535,880 shares and 2,156,184 shares for 19,038,891 and 17,367,823 shares of common stock, respectively, in public exchange offers.

In 2007, a holder of our 5.0% (Series 2005) cumulative convertible preferred stock exchanged 59,120 shares into 244,420 shares of common stock in a privately negotiated exchange.

In 2007, holders of our 4.125% cumulative convertible preferred stock and 6.25% mandatory convertible preferred stock converted 3 shares and 48 shares into 180 shares and 344 shares of common stock at a conversion price of $16.643 per share and $34.855 per share, respectively.

In 2006, holders of our 5% (Series 2003) and 6% cumulative convertible preferred stock converted 38,625 shares and 99,310 shares into 235,447 shares and 482,694 shares of common stock at a conversion price of $16.405 per share and $10.287 per share, respectively.

In 2006, holders of our 4.125% and 5.0% (Series 2003) cumulative convertible preferred stock exchanged 83,245 shares and 804,048 shares for 5,248,126 and 4,972,786 shares of common stock, respectively, in public exchange offers.

In 2006, holders of our 4.125% and 5.0% (Series 2003) cumulative convertible preferred stock converted 2,750 shares and 183,273 shares into 172,594 shares and 1,140,223 shares of common stock, respectively, in privately negotiated exchanges.

In 2006, we acquired 32% of the outstanding common stock of Chaparral Energy, Inc. for $240 million in cash and 1,375,989 newly issued shares of our common stock valued at $40 million. Chaparral is a privately-held independent oil and natural gas company headquartered in Oklahoma City, Oklahoma.

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

In 2005, holders of our 6.0% cumulative convertible preferred stock converted 3,800 shares into 18,468 shares of common stock at a conversion price of $10.287 per share.

In 2005, holders of our 4.125% and 5.0% (Series 2003) cumulative convertible preferred stock exchanged 224,190 and 699,054 shares for 14,321,881 and 4,362,720 shares, respectively, of common stock in privately negotiated exchanges.

In 2005, Chesapeake acquired Columbia Energy Resources, LLC and its subsidiaries, including Columbia Natural Resources, LLC ("CNR"), for a total consideration of $3.02 billion, consisting of $2.2 billion of cash and derivative liabilities, prepaid sales agreements and other liabilities of $0.8 billion.

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years Ended December 31,		
	2007	2006	2005
	($ in millions)		
PREFERRED STOCK:			
Balance, beginning of period	$ 1,958	$ 1,577	$ 491
Issuance of 6.25% mandatory convertible preferred stock	—	575	—
Issuance of 5.00% cumulative convertible preferred stock (Series 2005)	—	—	460
Issuance of 4.50% cumulative convertible preferred stock	—	—	345
Issuance of 5.00% cumulative convertible preferred stock (Series 2005B)	—	—	575
Exchange of common stock for 4,595,000, 0 and 0 shares of 5.00% preferred stock (Series 2005)	(459)	—	—
Exchange of common stock for 2,156,232, 0 and 0 shares of 6.25% preferred stock	(539)	—	—
Exchange of common stock for 3, 85,995 and 224,190 shares of 4.125% preferred stock	—	(86)	(224)
Exchange of common stock for 0, 1,025,946 and 699,054 shares of 5.00% preferred stock (Series 2003)	—	(103)	(70)
Exchange of common stock for 0, 99,310 and 3,800 shares of 6.00% preferred stock	—	(5)	—
Balance, end of period	960	1,958	1,577
COMMON STOCK:			
Balance, beginning of period	5	4	3
Issuance of 0, 58,750,000 and 32,200,000 shares of common stock	—	1	1
Issuance of 0, 1,375,989 and 0 shares of common stock for the purchase of Chaparral Energy, Inc. common stock	—	—	—
Exchange of 36,651,658, 12,251,870 and 18,703,069 shares of common stock for preferred stock	—	—	—
Exercise of stock options	—	—	—
Restricted stock grants	—	—	—
Balance, end of period	5	5	4
PAID-IN CAPITAL:			
Balance, beginning of period	5,873	3,803	2,440
Issuance of common stock	—	1,799	1,024
Issuance of common stock for the purchase of Chaparral Energy, Inc. common stock	—	40	—
Exchange of 36,651,658, 12,251,870 and 18,703,069 shares of common stock for preferred stock	998	193	294
Equity-based compensation	129	100	82
Adoption of SFAS 123(R)	—	(89)	—
Offering expenses	—	(58)	(77)
Exercise of stock options	15	73	22
Release of 0, 6,500,000 and 0 shares from treasury stock upon exercise of stock options	—	(75)	—
Tax benefit from exercise of stock options and restricted stock	20	88	18
Preferred stock conversion/exchange expenses	(3)	(1)	—
Balance, end of period	7,032	5,873	3,803
RETAINED EARNINGS (DEFICIT):			
Balance, beginning of period	2,913	1,101	263
Net income	1,451	2,003	948
Dividends on common stock	(121)	(96)	(65)
Dividends on preferred stock	(89)	(95)	(46)
Adoption of FIN48	(4)	—	—
Balance, end of period	4,150	2,913	1,100
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance, beginning of period	528	(195)	20
Hedging activity	(520)	809	(266)
Marketable securities activity	(19)	(86)	51
Balance, end of period	(11)	528	(195)
UNEARNED COMPENSATION:			
Balance, beginning of period	—	(89)	(32)
Restricted stock granted	—	—	(80)
Amortization of unearned compensation	—	—	23
Adoption of SFAS 123(R)	—	89	—
Balance, end of period	—	—	(89)
TREASURY STOCK—COMMON:			
Balance, beginning of period	(26)	(26)	(22)
Purchase of 0, 2,707,471 and 257,220 shares of treasury stock	—	(86)	(4)
Release of 0, 6,500,000 and 0 shares upon exercise of stock options	—	75	—
Release of 666,186, 361,280 and 8,525 shares for company benefit plans	20	11	—
Balance, end of period	(6)	(26)	(26)
TOTAL STOCKHOLDERS' EQUITY	$12,130	$11,251	$6,174

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
Net Income	$1,451	$2,003	$ 948
Other comprehensive income (loss), net of income tax:			
Change in fair value of derivative instruments, net of income taxes of ($56) million, $1.033 billion and ($318) million, respectively	(92)	1,711	(553)
Reclassification of (gain) loss on settled contracts, net of income taxes of ($308) million, ($426) million and $137 million, respectively	(504)	(706)	238
Ineffective portion of derivatives qualifying for cash flow hedge accounting, net of income taxes of $46 million, ($116) million and $28 million, respectively	76	(195)	49
Unrealized gain on marketable securities, net of income taxes of ($11) million, ($8) million and $29 million, respectively	(19)	(13)	51
Reclassification of gain on sales of investments, net of income taxes of $0, ($46) million and $0, respectively	—	(73)	—
Comprehensive income	$ 912	$2,727	$ 733

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

Description of Company

Chesapeake Energy Corporation ("Chesapeake" or the "company") is an oil and natural gas exploration and production company engaged in the exploration, development and acquisition of properties for the production of crude oil and natural gas from underground reservoirs, and we provide marketing and midstream services for natural gas and oil for other working interest owners in properties we operate. Our properties are located in Oklahoma, Texas, Alabama, Arkansas, Louisiana, Kansas, Montana, Colorado, North Dakota, Nebraska, New Mexico, West Virginia, Kentucky, Ohio, New York, Maryland, Michigan, Mississippi, Pennsylvania, Tennessee, Utah, Virginia and Wyoming.

Principles of Consolidation

The accompanying consolidated financial statements of Chesapeake include the accounts of our direct and indirect wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Accounting 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 assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the consolidated financial statements, Chesapeake considers investments in all highly liquid instruments with original maturities of three months or less at date of purchase to be cash equivalents.

Accounts Receivable

Our accounts receivable are primarily from purchasers of oil and natural gas and exploration and production companies which own interests in properties we operate. This industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic, industry or other conditions. We generally require letters of credit for receivables from customers which are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated.

Accounts receivable consists of the following components:

	December 31,	
	2007	2006
	($ in millions)	
Oil and natural gas sales	$ 798	$618
Joint interest	175	135
Service operations	10	17
Related parties	18	12
Other	81	68
Allowance for doubtful accounts	(8)	(5)
Total accounts receivable	$1,074	$845

Inventory

Inventory, which is included in current assets, includes tubular goods and other lease and well equipment which we plan to utilize in our ongoing exploration and development activities and is carried at the lower of cost or market using the specific identification method. Oil inventory in tanks is carried at the lower of the estimated cost to produce or market value. Purchased natural gas inventory is recorded at the lower of weighted average cost or market.

Oil and Natural Gas Properties

Chesapeake follows the full-cost method of accounting under which all costs associated with property acquisition, exploration and development activities are capitalized. We capitalize internal costs that can be directly identified with our acquisition, exploration and development activities and do not include any costs related to production, general corporate overhead or similar activities (see Note 11). Capitalized costs are amortized on a composite unit-of-production method based on proved oil and natural gas reserves. As of December 31, 2007, approximately 79% of our proved reserves were evaluated by independent petroleum engineers, with the balance evaluated by our internal reservoir engineers. In addition, our internal engineers review and update our reserves on a quarterly basis. The average composite rates used for depreciation, depletion and amortization were $2.57 per mcfe in 2007, $2.35 per mcfe in 2006 and $1.91 per mcfe in 2005.

Proceeds from the sale of properties are accounted for as reductions of capitalized costs unless such sales involve a significant change in the relationship between costs and the value of proved reserves or the underlying value of unproved properties, in which case a gain or loss is recognized.

The costs of unproved properties are excluded from amortization until the properties are evaluated. We review all of our unevaluated properties quarterly to determine whether or not and to what extent proved reserves have been assigned to the properties and otherwise if impairment has occurred. Unevaluated properties are grouped by major prospect area where individual property costs are not significant and are assessed individually when individual costs are significant.

We review the carrying value of our oil and natural gas properties under the full-cost accounting rules of the Securities and Exchange Commission on a quarterly basis. This quarterly review is referred to as a ceiling test. Under the ceiling test, capitalized costs, less accumulated amortization and related deferred income taxes, may not exceed an amount equal to the sum of the present value of estimated future net revenues (adjusted for cash flow hedges) less estimated future expenditures to be incurred in developing and producing the proved reserves, less any related income tax effects. In calculating future net revenues, current prices and costs used are those as of the end of the appropriate quarterly period. Such prices are utilized except where different prices are fixed and determinable from applicable contracts for the remaining term of those contracts, including the effects of derivatives qualifying as cash flow hedges. Our qualifying cash flow hedges as of December 31, 2007, which consisted of swaps and collars, covered 358 bcfe, 82 bcfe and 10 bcfe in 2008, 2009 and 2010, respectively. Our oil and natural gas hedging activities are discussed in Note 10 of these consolidated financial statements.

Two primary factors impacting the ceiling test are reserve levels and current prices, and their associated impact on the present value of estimated future net revenues. Revisions to estimates of natural gas and oil reserves and/or an increase or decrease in prices can have a material impact on the present value of estimated future net revenues. Any excess of the net book value, less deferred income taxes, is generally written off as an expense. Under SEC regulations, the excess above the ceiling is not expensed (or is reduced) if, subsequent to the end of the period, but prior to the release of the financial statements, oil and natural gas prices increase sufficiently such that an excess above the ceiling would have been eliminated (or reduced) if the increased prices were used in the calculations.

We account for seismic costs in accordance with Rule 4-10 of Regulation S-X. Specifically, Rule 4-10 requires that all companies that use the full-cost method capitalize exploration costs as part of their oil and natural gas properties (i.e., full-cost pool). Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Further, exploration costs include, among other things, geological and geophysical studies and salaries and other expenses of geologists, geophysical crews and others conducting those studies. Such costs are capitalized as incurred. Seismic costs directly associated with the acquisition and evaluation of unproved properties are excluded from the amortization computation until it is determined whether or not proved reserves can be assigned to the properties. The company reviews its unproved properties and associated seismic costs quarterly in order to ascertain whether impairment has incurred. To the extent that seismic costs cannot be directly associated with specific unevaluated properties, they are included in the amortization base as incurred.

Other Property and Equipment

Other property and equipment consists primarily of natural gas gathering and processing facilities, drilling rigs, land, buildings and improvements, natural gas compressors, vehicles, office equipment, and software. Major renewals and betterments are capitalized while the costs of repairs and maintenance are charged to expense as incurred. The costs of assets retired or otherwise disposed of and the applicable accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in operations. Other property and equipment costs are depreciated on a straight-line basis. A summary of other property and equipment and the useful lives are as follows:

	December 31		
	2007	2006	Useful Life
	($ in millions)		(in years)
Natural gas gathering systems and treating plants	$1,135	$ 552	20
Buildings and improvements	421	305	15 – 39
Drilling rigs and equipment	106	301	15
Other fixtures and equipment	327	241	2 – 7
Natural gas compressors	63	127	15
Land	395	124	—
Total	$2,447	$1,650	

Investments

Investments in securities are accounted for under the equity method in circumstances where we are deemed to exercise significant influence over the operating and investing policies of the investee but do not have control. Under the equity method, we recognize our share of the investee's earnings in our consolidated statements of operations. Investments in securities not accounted for under the equity method are accounted for under the cost method. Investments in marketable equity securities accounted for under the cost method have been designated as available for sale and, as such, are recorded at fair value.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 2007, investments accounted for under the equity method totaled $563 million and investments accounted for under the cost method totaled $49 million. Following is a summary of our investments:

	Approximate % Owned	Accounting Method	December 31, 2007 Carrying Value	December 31, 2006 Carrying Value
			($ in millions)	
Chaparral Energy, Inc.	32%	Equity	$ 271	$ 280
Frac Tech Services, Ltd	20%	Equity	237	254
Gastar Exploration Ltd (a)	17%	Cost	42	69
Eagle Energy Partners I, L.P.	33%	Equity	—	36
DHS Drilling Company	48%	Equity	28	26
Mountain Drilling Company	49%	Equity	19	24
Other	—	—	15	10
			$ 612	$ 699

(a) Our investment in Gastar had an associated cost basis of $89 million and $86 million as of December 31, 2007 and 2006, respectively.

In 2007, we sold our 33% limited partnership interest in Eagle Energy Partners I, L.P., which we first acquired in 2003, for proceeds of $124 million and a gain of $83 million.

In August 2006, we invested $254 million to acquire a 19.9% interest in Frac Tech Services, Ltd., a privately-held provider of well stimulation and high pressure pumping services, with operations focused in Texas (principally in the Barnett Shale) and the Rocky Mountains. The carrying value of our investment in Frac Tech is in excess of our underlying equity in net assets by approximately $181 million as of December 31, 2007. This excess amount is attributed to certain intangibles associated with the specialty services provided by Frac Tech and is being amortized over the estimated life of the intangibles.

In September 2006, we acquired 32% of the outstanding common stock of Chaparral Energy, Inc. for $240 million in cash and 1,375,989 newly issued shares of our common stock valued at $40 million. Chaparral is a privately-held independent oil and natural gas company headquartered in Oklahoma City, Oklahoma. The carrying value of our investment in Chaparral is in excess of our underlying equity in net assets by approximately $216 million as of December 31, 2007. This excess amount is attributed to the oil and natural gas reserves held by Chaparral and is amortized over the estimated life of these reserves based on a unit of production rate.

In 2006, we sold our investment in publicly-traded Pioneer Drilling Company common stock, realizing proceeds of $159 million and a gain of $117 million. We owned 17% of the common stock of Pioneer, which we began acquiring in 2003.

Capitalized Interest

During 2007, 2006 and 2005, interest of approximately $269 million, $179 million and $79 million, respectively, was capitalized on significant investments in unproved properties that were not being currently depreciated, depleted or amortized and on which exploration activities were in progress. Interest is capitalized using a weighted average interest rate based on our outstanding borrowings.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounts Payable and Accrued Liabilities

Included in accounts payable at December 31, 2007 and 2006, respectively, are liabilities of approximately $150 million and $248 million representing the amount by which checks issued, but not yet presented to our banks for collection, exceeded balances in applicable bank accounts. Other accrued liabilities include $262 million and $177 million of accrued drilling costs as of December 31, 2007 and 2006, respectively.

Debt Issue Costs

Included in other assets are costs associated with the issuance of our senior notes and costs associated with our revolving bank credit facility and hedging facilities. The remaining unamortized debt issue costs at December 31, 2007 and 2006 totaled $138 million and $116 million, respectively, and are being amortized over the life of the senior notes, revolving credit facility or hedging facilities.

Asset Retirement Obligations

Chesapeake follows Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations.* This statement applies to obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction and development of the assets.

SFAS 143 requires that the fair value of a liability for a retirement obligation be recognized in the period in which the liability is incurred. For oil and natural gas properties, this is the period in which an oil or natural gas well is acquired or drilled. The asset retirement obligation is capitalized as part of the carrying amount of our oil and natural gas properties at its discounted fair value. The liability is then accreted each period until the liability is settled or the well is sold, at which time the liability is reversed.

Revenue Recognition

Oil and Natural Gas Sales. Revenue from the sale of oil and natural gas is recognized when title passes, net of royalties.

Natural Gas Imbalances. We follow the “sales method” of accounting for our natural gas revenue whereby we recognize sales revenue on all natural gas sold to our purchasers, regardless of whether the sales are proportionate to our ownership in the property. An asset or a liability is recognized to the extent that we have an imbalance in excess of the remaining natural gas reserves on the underlying properties. The natural gas imbalance net position at December 31, 2007 and 2006 was a liability of $4 million and $5 million, respectively.

Marketing Sales. Chesapeake takes title to the natural gas it purchases from other working interest owners in operated wells, arranges for transportation and delivers the natural gas to third parties, at which time revenues are recorded. Chesapeake’s results of operations related to its oil and natural gas marketing activities are presented on a “gross” basis, because we act as a principal rather than an agent. All significant intercompany accounts and transactions have been eliminated.

Hedging

From time to time, Chesapeake uses commodity price and financial risk management instruments to mitigate our exposure to price fluctuations in oil and natural gas and interest rates. Recognized gains and losses on derivative contracts are reported as a component of the related transaction. Results of oil and natural gas derivative transactions are reflected in oil and natural gas sales and results of interest rate hedging transactions

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

are reflected in interest expense. The changes in fair value of derivative instruments not qualifying for designation as either cash flow or fair value hedges that occur prior to maturity are reported currently in the consolidated statement of operations as unrealized gains (losses) within oil and natural gas sales or interest expense.

We have established the fair value of all derivative instruments using estimates determined by our counterparties and subsequently evaluated internally using established index prices and other sources. These values are based upon, among other things, futures prices, volatility, time to maturity and credit risk. The values we report in our financial statements change as these estimates are revised to reflect actual results, changes in market conditions or other factors.

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities,* establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded at fair value and included in the consolidated balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception of a derivative. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Any change in the fair value resulting from ineffectiveness, as defined by SFAS 133, is recognized immediately in oil and natural gas sales. For interest rate derivative instruments designated as fair value hedges (in accordance with SFAS 133), changes in fair value are recorded on the consolidated balance sheets as assets (liabilities), and the debt's carrying value amount is adjusted by the change in the fair value of the debt subsequent to the initiation of the derivative. Differences between the changes in the fair values of the hedged item and the derivative instrument, if any, represent gains or losses on ineffectiveness and are reflected currently in interest expense. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time. Changes in fair value of contracts that do not qualify as hedges or are not designated as hedges are also recognized currently in earnings.

Stock-Based Compensation

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), to account for stock-based compensation. Among other items, SFAS 123(R) eliminates the use of APB Opinion No. 25 and the intrinsic value method of accounting for equity compensation and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the fair value at grant date of those awards in their financial statements. We elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options and other equity-based compensation beginning in the first quarter of adoption. Upon adoption of SFAS 123(R), we elected to use the "short-cut" method to calculate the historical pool of windfall tax benefits in accordance with Financial Accounting Standards Board Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, issued on November 10, 2005. For all unvested options outstanding as of January 1, 2006, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, is recognized in our financial statements over the remaining vesting period. For equity-based compensation awards granted or modified subsequent to January 1, 2006, compensation expense based on the fair value on the date of grant or modification is recognized in our financial statements over the vesting period. We utilize the Black-Scholes option pricing model to measure the fair value of stock options. To the extent compensation cost relates to employees directly involved in oil and natural gas exploration and development activities, such amounts are capitalized to oil and natural gas properties. Amounts not capitalized to oil and natural gas properties are recognized as general and administrative expenses or production expenses.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Prior to the adoption of SFAS 123(R), we followed the intrinsic value method in accordance with APB 25 to account for employee stock-based compensation. Prior period financial statements have not been restated. Upon adoption of SFAS 123(R), we eliminated $89 million of unearned compensation cost and reduced additional paid-in capital by the same amount on our consolidated balance sheet.

For the years ended December 31, 2007, 2006 and 2005, we recorded the following stock-based compensation ($ in millions):

	2007	2006	2005
Production expenses	$ 19	$ 7	$—
General and administrative expenses	57	27	15
Service operations expense	3	—	—
Oil and natural gas marketing expenses	5	—	—
Oil and natural gas properties	68	23	12
Employee retirement expense	—	51	—
Total	$152	$108	$ 27

SFAS 123(R) generally did not change the accounting for awards of restricted stock. The impact to income before income taxes of adopting SFAS 123(R) for 2006 was a reduction of $3 million associated with stock option awards. SFAS 123(R) also requires cash inflows resulting from tax deductions in excess of compensation expense recognized for stock options and restricted stock ("excess tax benefits") to be classified as financing cash inflows in our statements of cash flows. Accordingly, for the years ended December 31, 2007 and 2006, we reported $20 million and $88 million, respectively, of excess tax benefits from stock-based compensation as cash provided by financing activities on our statements of cash flows.

Pro forma Disclosures

Prior to January 1, 2006, we accounted for our employee and non-employee director stock options using the intrinsic value method prescribed by APB 25. As required by SFAS 123(R), we have disclosed below the effect on net income and earnings per share that would have been recorded using the fair value based method for 2005 ($ in millions, except per share amounts):

	Year Ended December 31, 2005
Net Income:	
As reported	$ 948
Add: Stock-based compensation expense included in reported net income, net of income tax	10
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of income tax	(18)
Pro forma net income	$ 940
Basic earnings per common share:	
As reported	$ 2.73
Pro forma	$ 2.71
Diluted earnings per common share:	
As reported	$ 2.51
Pro forma	$ 2.48

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for 2006 and 2005 to conform to the presentation used for the 2007 consolidated financial statements.

2. Net Income Per Share

Statement of Financial Accounting Standards No. 128, *Earnings Per Share (EPS)*, requires presentation of "basic" and "diluted" earnings per share, as defined, on the face of the statements of operations for all entities with complex capital structures. SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted EPS computations.

The following securities were not included in the calculation of diluted EPS, as the effect was antidilutive:

- For the year ended December 31, 2007, diluted shares do not include the common stock equivalent of our 5.00% (Series 2005) convertible preferred stock outstanding prior to conversion (convertible into 16,158,815 shares) and the preferred stock adjustments to net income do not include $76 million of dividends and loss on conversion/exchange related to these preferred shares, as the effect on diluted earnings per share would have been antidilutive.
- For the year ended December 31, 2007, diluted shares do not include the common stock equivalent of our 6.25% mandatory convertible preferred stock outstanding prior to conversion (convertible into 13,982,602 shares) and the preferred stock adjustments to net income do not include $99 million of dividends and loss on conversion/exchange related to these preferred shares, as the effect on diluted earnings per share would have been antidilutive.
- For the years ended December 31, 2006 and 2005, diluted shares do not include the common stock equivalent of our 4.125% convertible preferred stock outstanding prior to conversion (convertible into 2,090,292 and 8,610,708 shares, respectively) and the preferred stock adjustments to net income do not include $9 million and $29 million, respectively, of dividends and loss on conversion/exchange related to these preferred shares, as the effect on diluted earnings per share would have been antidilutive.
- For the year ended December 31, 2005, outstanding options to purchase 0.1 million shares of common stock at a weighted-average exercise price of $29.85 per share, were antidilutive because the exercise price of the options was greater than the average market price of the common stock.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A reconciliation for the years ended December 31, 2007, 2006 and 2005 is as follows:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in millions, except per share data)		
For the Year Ended December 31, 2007:			
Basic EPS:			
Income available to common shareholders	$ 1,229	456	$ 2.69
Effect of Dilutive Securities			
Assumed conversion as of the beginning of the period of preferred shares outstanding during the period:			
Common shares assumed issued for 4.50% convertible preferred stock	—	8	
Common shares assumed issued for 5.00% (Series 2005B) convertible preferred stock	—	15	
Common shares assumed issued for 6.25% mandatory convertible preferred stock	—	1	
Employee stock options	—	4	
Restricted stock	—	3	
Preferred stock dividends	47	—	
Diluted EPS income available to common shareholders and assumed conversions	$ 1,276	487	$ 2.62
For the Year Ended December 31, 2006:			
Basic EPS:			
Income available to common shareholders	$ 1,904	398	$ 4.78
Effect of Dilutive Securities			
Assumed conversion as of the beginning of the period of preferred shares outstanding during the period:			
Common shares assumed issued for 4.50% convertible preferred stock	—	8	
Common shares assumed issued for 5.00% (Series 2005) convertible preferred stock	—	18	
Common shares assumed issued for 5.00% (Series 2005B) convertible preferred stock	—	15	
Common shares assumed issued for 6.25% mandatory convertible preferred stock	—	9	
Assumed conversion as of the beginning of the period of preferred shares outstanding prior to conversion:			
Common stock equivalent of preferred stock outstanding prior to conversion, 5.00% (Series 2003) convertible preferred stock	—	2	
Employee stock options	—	6	
Restricted stock	—	3	
Loss on redemption of preferred stock	3	—	
Preferred stock dividends	87	—	
Diluted EPS income available to common shareholders and assumed conversions	$ 1,994	459	$ 4.35
For the Year Ended December 31, 2005:			
Basic EPS:			
Income available to common shareholders	$ 880	322	$ 2.73
Effect of Dilutive Securities			
Assumed conversion as of the beginning of the period of preferred shares outstanding during the period:			
Common shares assumed issued for 4.125% convertible preferred stock	—	5	
Common shares assumed issued for 4.50% convertible preferred stock	—	2	
Common shares assumed issued for 5.00% (Series 2003) convertible preferred stock	—	6	
Common shares assumed issued for 5.00% (Series 2005) convertible preferred stock	—	13	
Common shares assumed issued for 5.00% (Series 2005B) convertible preferred stock	—	2	
Common shares assumed issued for 6.00% convertible preferred stock	—	1	
Assumed conversion as of the beginning of the period of preferred shares outstanding prior to conversion:			
Common stock equivalent of preferred stock outstanding prior to conversion, 5.00% (Series 2003) convertible preferred stock	—	3	
Employee stock options	—	11	
Restricted stock	—	2	
Loss on redemption of preferred stock	3	—	
Preferred stock dividends	36	—	
Diluted EPS income available to common shareholders and assumed conversions	$ 919	367	$ 2.51

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Senior Notes and Revolving Bank Credit Facility

Our long-term debt consisted of the following at December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
	($ in millions)	
7.5% Senior Notes due 2013	$ 364	$ 364
7.625% Senior Notes due 2013	500	500
7.0% Senior Notes due 2014	300	300
7.5% Senior Notes due 2014	300	300
7.75% Senior Notes due 2015	300	300
6.375% Senior Notes due 2015	600	600
6.625% Senior Notes due 2016	600	600
6.875% Senior Notes due 2016	670	670
6.5% Senior Notes due 2017	1,100	1,100
6.25% Euro-denominated Senior Notes due 2017 (a)	876	792
6.25% Senior Notes due 2018	600	600
6.875% Senior Notes due 2020	500	500
2.75% Contingent Convertible Senior Notes due 2035 (b)	690	690
2.5% Contingent Convertible Senior Notes due 2037 (b)	1,650	—
Revolving bank credit facility	1,950	178
Discount on senior notes	(105)	(101)
Impact of interest rate derivatives (c)	55	(17)
Total notes payable and long-term debt	$10,950	$7,376

(a) The principal amount shown is based on the dollar/euro exchange rate of $1.4603 to €1.00 and $1.3197 to €1.00 as of December 31, 2007 and 2006, respectively. See Note 10 for information on our related cross currency swap.

(b) The holders of our Contingent Convertible Senior Notes may require us to repurchase all or a portion of their notes 5, 10, 15 or 20 years prior to the maturity date, or upon a fundamental change, at 100% of the principal amount of the notes, payable in cash. The notes are convertible, at the holder's option, prior to maturity under certain circumstances, into cash and, if applicable, shares of our common stock using a net share settlement process. In general, upon conversion of a convertible senior note, the holder will receive cash equal to the principal amount of the note and common stock for the note's conversion value in excess of such principal amount. In addition, we will pay contingent interest on the convertible senior notes, beginning with the six-month interest period ending May 14, 2016 with respect to the 2.75% Contingent Convertible Senior Notes due 2035 and November 14, 2017 with respect to the 2.5% Contingent Convertible Senior Notes due 2037, under certain conditions. We may redeem the convertible senior notes once they have been outstanding for ten years at a redemption price of 100% of the principal amount of the notes, payable in cash.

(c) See Note 10 for further discussion related to these instruments.

No scheduled principal payments are required under our senior notes until 2013 when $864 million is due.

In 2005, we repurchased or exchanged $564 million of Chesapeake debt in order to re-finance a portion of our long-term debt at a lower rate of interest and recognized a loss of $70 million. No such purchases or exchanges were completed in 2007 or 2006.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Our outstanding senior notes are unsecured senior obligations of Chesapeake that rank equally in right of payment with all of our existing and future senior indebtedness and rank senior in right of payment to all of our future subordinated indebtedness. We may redeem the senior notes, other than the 2.75% Contingent Convertible Senior Notes due 2035 and the 2.5% Contingent Convertible Senior Notes due 2037, at any time at specified make-whole or redemption prices. Senior notes issued before July 2005 are governed by indentures containing covenants that limit our ability and our restricted subsidiaries' ability to incur additional indebtedness; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness; make investments and other restricted payments; incur liens; enter into sale/leaseback transactions; create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries; engage in transactions with affiliates; sell assets; and consolidate, merge or transfer assets. Senior notes issued after June 2005 are governed by indentures containing covenants that limit our ability and our restricted subsidiaries' ability to incur certain secured indebtedness; enter into sale/leaseback transactions; and consolidate, merge or transfer assets.

Chesapeake is a holding company and owns no operating assets and has no significant operations independent of its subsidiaries. Our obligations under our outstanding senior notes have been fully and unconditionally guaranteed, jointly and severally, by all of our wholly-owned subsidiaries, other than minor subsidiaries, on a senior unsecured basis.

On November 2, 2007, we amended and restated our syndicated revolving bank credit facility to increase the borrowing base to $3.5 billion (with commitments of $3.0 billion) and extended the maturity to November 2012. We subsequently increased the commitments under the credit facility to $3.5 billion. As of December 31, 2007, we had $1.950 billion in outstanding borrowings under our facility and utilized approximately $5 million of the facility for various letters of credit. Borrowings under our facility are secured by certain producing oil and natural gas properties and bear interest at our option of either (i) the greater of the reference rate of Union Bank of California, N.A. or the federal funds effective rate plus 0.50% or (ii) the London Interbank Offered Rate (LIBOR), plus a margin that varies from 0.75% to 1.50% per annum according to our senior unsecured long-term debt ratings. The collateral value and borrowing base are determined periodically. The unused portion of the facility is subject to a commitment fee that also varies according to our senior unsecured long-term debt ratings, from 0.125% to 0.30% per annum. Currently, the commitment fee rate is 0.20% per annum. Interest is payable quarterly or, if LIBOR applies, it may be payable at more frequent intervals.

The credit facility agreement contains various covenants and restrictive provisions which limit our ability to incur additional indebtedness, make investments or loans and create liens. The credit facility agreement requires us to maintain an indebtedness to total capitalization ratio (as defined) not to exceed 0.70 to 1 and an indebtedness to EBITDA ratio (as defined) not to exceed 3.75 to 1. As defined by the credit facility agreement, our indebtedness to total capitalization ratio was 0.48 to 1 and our indebtedness to EBITDA ratio was 2.16 to 1 at December 31, 2007. If we should fail to perform our obligations under these and other covenants, the revolving credit commitment could be terminated and any outstanding borrowings under the facility could be declared immediately due and payable. Such acceleration, if involving a principal amount of $10 million ($50 million in the case of our senior notes issued after 2004), would constitute an event of default under our senior note indentures, which could in turn result in the acceleration of a significant portion of our senior note indebtedness. The credit facility agreement also has cross default provisions that apply to other indebtedness we may have with an outstanding principal amount in excess of $75 million.

Two of our subsidiaries, Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C., are the borrowers under our revolving bank credit facility. The facility is fully and unconditionally guaranteed, on a joint and several basis, by Chesapeake and all of our other wholly owned subsidiaries except minor subsidiaries.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Contingencies and Commitments

Litigation. We are involved in various disputes incidental to our business operations, including claims from royalty owners regarding volume measurements, post-production costs and prices for royalty calculations. In Tawney, et al. v. Columbia Natural Resources, Inc., Chesapeake's wholly-owned subsidiary Chesapeake Appalachia, L.L.C., formerly known as Columbia Natural Resources, LLC (CNR), is a defendant in a class action lawsuit in the Circuit Court of Roane County, West Virginia filed in 2003 by royalty owners. The plaintiffs allege that CNR underpaid royalties by improperly deducting post-production costs, failing to pay royalty on total volumes of natural gas produced and not paying a fair value for the natural gas produced from their leases. The plaintiff class consists of West Virginia royalty owners receiving royalties after July 31, 1990 from CNR. Chesapeake acquired CNR in November 2005, and its seller acquired CNR in 2003 from NiSource Inc. NiSource, a co-defendant in the case, has managed the litigation and indemnified Chesapeake against underpayment claims based on the use of fixed prices for natural gas production sold under certain forward sale contracts and other claims with respect to CNR's operations prior to September 2003.

On January 27, 2007, the Circuit Court jury returned a verdict against the defendants of $404 million, consisting of $134 million in compensatory damages and $270 million in punitive damages. Most of the damages awarded by the jury relate to issues not yet addressed by the West Virginia Supreme Court of Appeals, although in June 2006 that Court ruled against the defendants on two certified questions regarding the deductibility of post-production expenses. The jury found fraudulent conduct by the defendants with respect to the sales prices used to calculate royalty payments and with respect to the failure of CNR to disclose post-production deductions. On June 28, 2007, the Circuit Court sustained the jury verdict for punitive damages, and on September 27, 2007, it denied all post-trial motions, including defendants' motion for judgment as a matter of law, or in the alternative, for a new trial. On December 5, 2007, the Circuit Court entered an order granting defendants' motion to stay the judgment pending appeal conditioned upon filing an irrevocable letter of credit in the amount of $50 million. The irrevocable letter of credit was filed January 4, 2008. On January 24, 2008, the defendants filed a Petition for Appeal in the West Virginia Supreme Court of Appeals.

Chesapeake and NiSource maintain CNR acted in good faith and paid royalties in accordance with lease terms and West Virginia law. Chesapeake has established an accrual for amounts it believes will not be indemnified. Should a final nonappealable judgment be entered, Chesapeake believes its share of damages will not have a material adverse effect on its results of operations, financial condition or liquidity.

Chesapeake is subject to other legal proceedings and claims which arise in the ordinary course of business. In our opinion, the final resolution of these proceedings and claims will not have a material effect on the company.

Employment Agreements with Officers. Chesapeake has employment agreements with its chief executive officer, chief operating officer, chief financial officer and other executive officers, which provide for annual base salaries, various benefits and eligibility for bonus compensation. The agreement with the chief executive officer has a term of five years commencing January 1, 2008. The term of the agreement is automatically extended for one additional year on each December 31 unless the company provides 30 days notice of non-extension. In the event of termination of employment without cause, the chief executive officer's base compensation (defined as base salary plus bonus compensation received during the preceding 12 months) and benefits would continue during the remaining term of the agreement. The chief executive officer is entitled to receive a payment in the amount of three times his base compensation upon the happening of certain events following a change of control. The agreement further provides that any stock-based awards held by the chief executive officer and deferred compensation will immediately become 100% vested upon termination of employment without cause, incapacity, death or retirement at or after age 55, and any unexercised stock options will not terminate as the result of termination of employment. The agreements with the chief operating officer, chief financial officer and other executive officers expire on September 30, 2009. These agreements provide for the continuation of salary for one year in the event of termination of employment without cause or death and, in the event of a change of control, a payment in the amount of two times the executive officer's base compensation. These executive officers are entitled to continue to receive compensation and benefits for 180 days following termination of employment as a result of incapacity. Any stock-based awards held by such executive officers will immediately become 100% vested upon termination of employment without cause, a change of control, death or retirement at or after age 55.

Environmental Risk. Due to the nature of the oil and natural gas business, Chesapeake and its subsidiaries are exposed to possible environmental risks. Chesapeake has implemented various policies and procedures to avoid environmental contamination and risks from environmental contamination. Chesapeake conducts periodic reviews, on a company-wide basis, to identify changes in our environmental risk profile. These reviews evaluate whether there is a contingent liability, its amount, and the likelihood that the liability will be incurred. The amount of any potential liability is determined by considering, among other matters, incremental direct costs of any likely remediation and the proportionate cost of employees who are expected to devote a significant amount of time directly to any possible remediation effort. We manage our exposure to environmental liabilities on properties to be acquired by identifying existing problems and assessing the potential liability. Depending on the extent of an identified environmental problem, Chesapeake may exclude a property from the acquisition, require the seller to remediate the property to our satisfaction, or agree to assume liability for the remediation of the property. Chesapeake has historically not experienced any significant environmental liability, and is not aware of any potential material environmental issues or claims at December 31, 2007.

Rig Leases. In a series of transactions in 2006 and 2007, our drilling subsidiaries sold 78 drilling rigs and related equipment for $613 million and entered into a master lease agreement under which we agreed to lease the rigs from the buyer for initial terms of seven to ten years for rental payments of approximately $87 million annually. The lease obligations are guaranteed by Chesapeake and its other material subsidiaries. These transactions were recorded as sales and operating leasebacks and any related gain or loss is being amortized to service operations expense over the lease term. Under the rig leases, we have the option to purchase the rigs starting in 2013 or on the expiration of the lease term for a purchase price equal to the then fair market value of the rigs. Additionally, we have the option to renew the rig lease for a negotiated renewal term at a periodic rental equal to the fair market rental value of the rigs as determined at the time of renewal.

Compressor Leases. In a series of transactions in 2007, our wholly-owned subsidiary, MidCon Compression, L.L.C., sold a significant portion of its compressor fleet, consisting of 1,199 compressors, for $188 million and entered into a master lease agreement. The term of the agreement varies by buyer ranging from seven to ten years for aggregate rental payments of approximately $23 million annually. MidCon's lease obligations are guaranteed by Chesapeake and its other material subsidiaries. These transactions were recorded as sales and operating leasebacks and any related gain or loss is being amortized to oil and natural gas marketing expense over the lease term. Under the leases, we can exercise an early purchase option after six to nine years or we can purchase the compressors at expiration of the lease for the fair market value at the time. In addition, we have the option to renew the lease for negotiated new terms at the expiration of the lease. Over the next 18 months, 365 new compressors are on order for $175 million and we intend to simultaneously enter into sale/leaseback transactions with a financial counterparty as the compressors are delivered.

Commitments related to rig, compressor and other operating lease payments are not recorded in the accompanying consolidated balance sheets. As of December 31, 2007, minimum future lease payments were as follows ($ in millions):

	Rigs	Compressors	Other	Total
2008	$ 87	$ 27	$ 8	$122
2009	87	22	6	115
2010	87	21	3	111
2011	87	21	2	110
2012	88	23	2	113
After 2012	192	94	1	287
Total	$628	$ 208	$ 22	$858

Rent expense, including short-term rentals, for the years ended December 31, 2007, 2006 and 2005 was $81 million, $47 million and $30 million, respectively.

Transportation Contracts. Chesapeake has various firm pipeline transportation service agreements with expiration dates ranging from one to 93 years. These commitments are not recorded in the accompanying consolidated balance sheets. Under the terms of these contracts, we are obligated to pay demand charges as set forth in the transporter's Federal Energy Regulatory Commission (FERC) gas tariff. In exchange, the company receives rights to flow natural gas production through pipelines located in highly competitive markets. Excluded from this summary are demand charges for pipeline projects that are currently seeking regulatory approval. The aggregate amounts of such required demand payments as of December 31, 2007 are as follows ($ in millions):

2008	$ 69
2009	67
2010	63
2011	59
2012	53
After 2012	224
Total	$535

Drilling Contracts. We have contracts with various drilling contractors to use 32 drilling rigs in 2008 with terms of one to three years. These commitments are not recorded in the accompanying consolidated balance sheets. Minimum future commitments as of December 31, 2007 are as follows ($ in millions):

2008	$144
2009	57
2010	11
After 2010	—
Total	$212

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Gas Purchase Obligations. Our marketing segment regularly purchases gas from other owners in our oil and gas properties and, accordingly, has commitments to purchase gas which typically are short term in nature. We have also committed to purchase gas associated with the December 31, 2007 sale of a volumetric production payment. The purchase commitment extends over a 15 year term at market prices at the time of production, and the purchased gas will be resold. The obligations are as follows:

	Mmcfe
2008	19,858
2009	18,601
2010	18,043
2011	16,251
2012	15,322
After 2012	119,949
Total	208,024

Other. Chesapeake and a leading investment bank have an agreement to lend Mountain Drilling Company, of which Chesapeake is a 49% equity owner, up to $32 million each through December 31, 2009. At December 31, 2007, Mountain Drilling owed Chesapeake $21 million under this agreement.

Chesapeake has an agreement to lend Ventura Refining and Transmission LLC, of which Chesapeake is a 25% equity owner, up to $31 million through January 31, 2017. At December 31, 2007, there was $26 million outstanding under this agreement. Additionally, we have agreed to guarantee various commitments for Ventura, up to $70 million, to support their operating activities. As of December 31, 2007, we had guaranteed $61 million of commitments.

5. Income Taxes

The components of the income tax provision (benefit) for each of the periods presented below are as follows:

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
Current	$ 29	$ 5	$ —
Deferred	861	1,247	545
Total	$ 890	$ 1,252	$ 545

The effective income tax expense differed from the computed “expected” federal income tax expense on earnings before income taxes for the following reasons:

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
Computed “expected” federal income tax provision	$ 819	$ 1,139	$ 523
State income taxes	56	90	23
Other	15	23	(1)
	$ 890	$ 1,252	$ 545

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred income taxes are provided to reflect temporary differences in the basis of net assets for income tax and financial reporting purposes. The tax-effected temporary differences and tax loss carryforwards which comprise deferred taxes are as follows:

	Years Ended December 31, 2007	2006
	($ in millions)	
Deferred tax liabilities:		
Oil and natural gas properties	$ (3,760)	$ (3,259)
Other property and equipment	(152)	(106)
Derivative instruments	(20)	(398)
Volumetric production payment	(442)	—
Deferred tax liabilities	(4,374)	(3,763)
Deferred tax assets:		
Net operating loss carryforwards	$ 170	$ 290
Asset retirement obligation	91	74
Investments	33	7
Accrued liabilities	6	4
Percentage depletion carryforwards	11	6
Alternative minimum tax credits	61	6
Other	37	20
Deferred tax assets	409	407
Total deferred tax asset (liability)	$ (3,965)(a)	$ (3,356)
Reflected in accompanying balance sheets as:		
Current deferred income tax asset	$ 1	$ —
Current deferred income tax liability	—	(39)
Non-current deferred income tax liability	(3,966)	(3,317)
	$ (3,965)	$ (3,356)

(a) In addition to the income tax expense of $890 million, activity during 2007 includes a net liability of $131 million related to acquisitions and deferred tax assets for $314 million related to derivative instruments, $11 million related to investments, $20 million related to stock-based compensation, $56 million related to AMT payments and $3 million related to the implementation of FIN 48. In addition, the activity includes a reduction to deferred tax liabilities of $8 million related to state income tax payments and other miscellaneous items. These items were not recorded as part of the provision for income taxes.

As of December 31, 2007, we classified $1 million of deferred tax assets as current that were attributable to the current portion of derivative liabilities and other current temporary differences. As of December 31, 2006, we classified $39 million of deferred tax liabilities as current that were attributable to the current portion of derivative assets and other current temporary differences.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 2007, Chesapeake had federal income tax net operating loss (NOL) carryforwards of approximately $238 million and approximately $29 million of percentage depletion carryforwards. Additionally, we had $5 million of alternative minimum tax (AMT) NOL carryforwards available as a deduction against future AMT income. The NOL carryforwards expire from 2019 through 2026. The value of these carryforwards depends on the ability of Chesapeake to generate taxable income. In addition, for AMT purposes, only 90% of AMT income in any given year may be offset by AMT NOLs. A summary of our NOLs follows:

	NOL	AMT NOL
	($ in millions)	
Expiration Date:		
December 31, 2019	$ 17	$ —
December 31, 2020	1	—
December 31, 2021	17	—
December 31, 2022	36	—
December 31, 2023	126	2
December 31, 2024	5	1
December 31, 2025	22	—
December 31, 2026	14	2
Total	$238	$ 5

The ability of Chesapeake to utilize NOL carryforwards to reduce future federal taxable income and federal income tax of Chesapeake is subject to various limitations under the Internal Revenue Code of 1986, as amended. The utilization of such carryforwards may be limited upon the occurrence of certain ownership changes, including the issuance or exercise of rights to acquire stock, the purchase or sale of stock by 5% stockholders, as defined in the Treasury regulations, and the offering of stock by us during any three-year period resulting in an aggregate change of more than 50% in the beneficial ownership of Chesapeake.

In the event of an ownership change (as defined for income tax purposes), Section 382 of the Code imposes an annual limitation on the amount of a corporation's taxable income that can be offset by these carryforwards. The limitation is generally equal to the product of (i) the fair market value of the equity of the company multiplied by (ii) a percentage approximately equivalent to the yield on long-term tax exempt bonds during the month in which an ownership change occurs. In addition, the limitation is increased if there are recognized built-in gains during any post-change year, but only to the extent of any net unrealized built-in gains (as defined in the Code) inherent in the assets sold. Certain NOLs acquired through various acquisitions are also subject to limitations.

The following table summarizes our net operating losses as of December 31, 2007 and any related limitations:

	Total	Limited	Annual Limitation
		($ in millions)	
Net operating loss	$238	$ 27	$ 10
AMT net operating loss	$ 5	$ 5	$ 1

As of December 31, 2007, we do not believe that an ownership change has occurred. Future equity transactions by Chesapeake or by 5% stockholders (including relatively small transactions and transactions beyond our control) could cause an ownership change and therefore a limitation on the annual utilization of NOLs.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*. FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 was effective for fiscal years beginning after December 15, 2006.

Chesapeake adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, Chesapeake recognized a $7 million liability for accrued interest associated with uncertain tax positions which was accounted for as a reduction in the January 1, 2007 balance of retained earnings, net of tax. At the date of adoption, we had approximately $142 million of unrecognized tax benefits related to alternative minimum tax (AMT) associated with uncertain tax positions. As of December 31, 2007, the amount of unrecognized tax benefits related to AMT associated with uncertain tax positions was $133 million. If these unrecognized tax benefits are disallowed and we are ultimately required to pay additional AMT liabilities, any payments can be utilized as credits against future regular tax liabilities. The uncertain tax positions identified would not have a material effect on the effective tax rate. At December 31, 2007, we had a liability of $5 million for interest related to these same uncertain tax positions. Chesapeake recognizes interest related to uncertain tax positions in interest expense. Penalties, if any, related to uncertain tax positions would be recorded in other expenses.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

	($ in millions)
Balance at January 1, 2007	$ 142
Additions based on tax positions related to the current year	64
Reductions for tax positions of prior years	(52)
Settlements	(21)
Balance at December 31, 2007	$ 133

Chesapeake files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, Chesapeake is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004. The Internal Revenue Service (IRS) completed an examination of Chesapeake’s 2003 and 2004 U.S. income tax returns in September 2007. This examination resulted in an additional AMT liability of $9 million. This AMT liability can be utilized as a credit against future regular tax liabilities. The adjustments in the examination did not result in a material change to our financial position, results of operations or cash flows.

6. Related Party Transactions

As of December 31, 2007, we had accrued accounts receivable from our CEO, Aubrey K. McClendon, of $18 million representing joint interest billings from December 2007 which were invoiced and timely paid in January 2008. Since Chesapeake was founded in 1989, Mr. McClendon has acquired working interests in virtually all of our oil and natural gas properties by participating in our drilling activities under the terms of the Founder Well Participation Program (“FWPP”) described below. Joint interest billings to him are settled in cash immediately upon delivery of a monthly joint interest billing.

Under the FWPP, approved by our shareholders in June 2005, Mr. McClendon (and our co-founder and former COO, Tom L. Ward, prior to August 10, 2006) may elect to participate in all or none of the wells drilled by or on behalf of Chesapeake during a calendar year, but he is not allowed to participate only in selected wells.

A participation election is required to be received by the Compensation Committee of Chesapeake's Board of Directors not less than 30 days prior to the start of each calendar year. His participation is permitted only under the terms outlined in the Founder Well Participation Program, which, among other things, limits his individual participation to a maximum working interest of 2.5% in a well and prohibits participation in situations where Chesapeake's working interest would be reduced below 12.5% as a result of his participation. In addition, the company is reimbursed for costs associated with leasehold acquired by Mr. McClendon as a result of his well participation. Mr. Ward's participation in the Founder Well Participation Program terminated on August 10, 2006.

As disclosed in Note 8, in 2007, 2006 and 2005 Chesapeake had revenues of $1.1 billion, $867 million and $851 million, respectively, from oil and natural gas sales to Eagle Energy Partners I, L.P., a former affiliated entity. We sold our 33% limited partnership interest in Eagle Energy in June 2007.

7. Employee Benefit Plans

Our qualified 401(k) profit sharing plan is the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan, which is open to employees of Chesapeake and all our subsidiaries except certain employees of Chesapeake Appalachia, L.L.C. On January 1, 2007, a plan we maintained for the employees of our subsidiary Nomac Drilling Corporation was merged into the Chesapeake plan. Eligible employees may elect to defer compensation through voluntary contributions to their 401(k) plan accounts, subject to plan limits and those set by the Internal Revenue Service. Chesapeake matches employee contributions dollar for dollar (subject to a maximum contribution of 15% of the employees annual compensation) with Chesapeake common stock purchased in the open market. For the Nomac plan, the matching percentage was 8% for 2005 through June 2006, and 15% as of July 1, 2006. The company contributed $28 million, $18 million and $10 million to the Chesapeake plan in 2007, 2006 and 2005, respectively, and $2 million and a nominal amount to the Nomac plan in 2006 and 2005, respectively.

In November 2005, Chesapeake acquired Columbia Natural Resources, LLC, which sponsored the Columbia Natural Resources, LLC 401(k) Plan. Chesapeake's 401(k) plan was amended effective January 1, 2006 to honor previous service by employees with CNR and predecessor companies and was open to CNR employees in the Charleston, West Virginia headquarters office as well as exempt, administrative field employees. The CNR plan was adopted by the new employer entity, Chesapeake Appalachia, L.L.C., and was open to all non-administrative field employees, including union employees. The company contributed approximately $1 million to this plan in 2006. Effective January 1, 2007, these employees, other than union employees, became eligible to participate in the Chesapeake plan. Union employees will continue participation in the CNR plan pending the outcome of ongoing labor negotiations.

Prior to 2008, we maintained two nonqualified deferred compensation plans, the 401(k) make-up plan and the deferred compensation plan. Effective on January 1, 2008, the deferred compensation plans were merged into the Chesapeake Energy Corporation Amended and Restated Deferred Compensation Plan. To be eligible to participate in the amended and restated deferred compensation plan an employee must receive annual compensation (base salary and bonus combined) of at least $100,000, have a minimum of one year of service as a company employee and have made the maximum contribution allowable under the 401(k) plan. For employees with at least five years of service as a company employee, the company matches employee contributions to the plan in Chesapeake common stock. Chesapeake matches 100% of employee contributions up to 15% of base salary and bonus in the aggregate for the 401(k) plan and the amended and restated deferred compensation plan. We contributed $4 million, $2 million and $2 million to the 401(k) make-up plan during 2007, 2006 and 2005, respectively. The company's non-employee directors are able to defer up to 100% of director fees into the amended and restated deferred compensation plan.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Employees with at least one year of service receiving an annual base salary of at least $100,000 ($95,000 in 2005) during the 12 months prior to the enrollment date were eligible to participate in our deferred compensation plan. In addition, non-employee directors were able to defer up to 100% of director fees into the plan. The maximum compensation that can be deferred by employees under all company deferred compensation plans, including the Chesapeake 401(k) plan, was a total of 75% of base salary and 100% of performance bonus. Chesapeake made no matching or other contributions to the deferred compensation plan.

Any assets placed in trust by Chesapeake to fund future obligations of the 401(k) make-up plan and the deferred compensation plan are subject to the claims of creditors in the event of insolvency or bankruptcy, and participants are general creditors of the company as to their deferred compensation in the plans.

Chesapeake maintains no post-employment benefit plans except those sponsored by Chesapeake Appalachia, L.L.C. As of December 31, 2006, a total of 188 employees were eligible for these plans. As of January 1, 2007, participation in these plans was limited to union members (135 employees) and continuing eligibility is the subject of ongoing labor negotiations. The Chesapeake Appalachia, L.L.C. benefit plans provide health care and life insurance benefits to eligible employees upon retirement. We account for these benefits on an accrual basis. As of December 31, 2007, the company had accrued $2 million in accumulated post-employment benefit liability.

8. Major Customers and Segment Information

Sales to individual customers constituting 10% or more of total revenues (before the effects of hedging) were as follows:

Year Ended December 31,	Customer	Amount ($ in millions)	Percent of Total Revenues
2007	Eagle Energy Partners I, L.P.	$ 1,072	15%
2006	Eagle Energy Partners I, L.P.	$ 867	16%
2005	Eagle Energy Partners I, L.P.	$ 851	18%

In September 2003, Chesapeake invested approximately $6 million in Eagle Energy Partners I, L.P. and received a 25% limited partnership interest. Through additional investments totaling $27 million, Chesapeake increased its limited partner ownership interest to $33 million or approximately 33% as of December 31, 2006. In 2007, we sold our 33% limited partnership interest for proceeds of $124 million and a gain of $83 million.

In accordance with Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, we have two reportable operating segments. Our exploration and production operational segment and oil and natural gas marketing segment are managed separately because of the nature of their products and services. The exploration and production segment is responsible for finding and producing oil and natural gas. The marketing segment is responsible for gathering, processing, compressing, transporting and selling oil and natural gas primarily from Chesapeake-operated wells. We also have drilling rig and trucking operations which are responsible for providing drilling rigs primarily used on Chesapeake-operated wells and trucking services utilized in the transportation of drilling rigs on both Chesapeake-operated wells and wells operated by third parties.

Management evaluates the performance of our segments based upon income before income taxes. Revenues from the marketing segment's sale of oil and natural gas related to Chesapeake's ownership interests are reflected as exploration and production revenues. Such amounts totaled $3.5 billion, $2.6 billion and $2.4 billion for 2007,

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2006 and 2005, respectively. The following tables present selected financial information for Chesapeake's operating segments. Our drilling and trucking service operations are presented in "Other Operations" for all periods presented.

	Exploration and Production	Marketing	Other Operations	Intercompany Eliminations	Consolidated Total
			($ in millions)		
For the Year Ended December 31, 2007:					
Revenues	$ 5,624	$ 5,508	$ 493	$ (3,825)	$ 7,800
Intersegment revenues	—	(3,468)	(357)	3,825	—
Total Revenues	5,624	2,040	136	—	7,800
Depreciation, depletion and amortization	1,954	25	26	(16)	1,989
Interest and other income	14	1	—	—	15
Interest expense	406	—	—	—	406
Other income/expense	83	—	—	—	83
INCOME BEFORE INCOME TAXES	$ 2,287	$ 41	$ 135	$ (122)	$ 2,341
TOTAL ASSETS	$ 29,317	$ 1,759	$ 487	$ (829)	$ 30,734
CAPITAL EXPENDITURES	$ 7,977	$ 534	$ (163)	$ —	$ 8,348
For the Year Ended December 31, 2006:					
Revenues	$ 5,619	$ 4,135	$ 325	$ (2,753)	$ 7,326
Intersegment revenues	—	(2,558)	(195)	2,753	—
Total Revenues	5,619	1,577	130	—	7,326
Depreciation, depletion and amortization	1441	10	28	(16)	1,463
Interest and other income	22	4	—	—	26
Interest expense	300	—	1	—	301
Other income/expense	117	—	—	—	117
INCOME BEFORE INCOME TAXES	$ 3,192	$ 41	$ 106	$ (84)	$ 3,255
TOTAL ASSETS	$ 23,333	$ 864	$ 786	$ (566)	$ 24,417
CAPITAL EXPENDITURES	$ 8,423	$ 255	$ 231	$ —	$ 8,909
For the Year Ended December 31, 2005:					
Revenues	$ 3,273	$ 3,788	$ 61	$ (2,457)	$ 4,665
Intersegment revenues	—	(2,396)	(61)	2,457	—
Total Revenues	3,273	1,392	—	—	4,665
Depreciation, depletion and amortization	940	5	6	(6)	945
Interest and other income	9	1	—	—	10
Interest expense	220	—	—	—	220
Other income/expense	70	—	—	—	70
INCOME BEFORE INCOME TAXES	$ 1,467	$ 26	$ 10	$ (10)	$ 1,493
TOTAL ASSETS	$ 15,124	$ 688	$ 306	$ —	$ 16,118
CAPITAL EXPENDITURES	$ 7,696	$ 133	$ 70	$ —	$ 7,899

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Stockholders' Equity, Restricted Stock and Stock Options

The following is a summary of the changes in our common shares outstanding for 2007, 2006 and 2005:

	2007	2006	2005
		(in thousands)	
Shares issued at January 1	458,601	375,511	316,941
Stock option and warrant exercises	2,127	6,969	3,996
Restricted stock issuances (net of forfeitures)	14,268	3,743	3,671
Preferred stock conversions/exchanges	36,652	12,252	18,703
Common stock issuances for cash	—	58,750	32,200
Common stock issued for the purchase of Chaparral Energy, Inc. common stock	—	1,376	—
Shares issued at December 31	511,648	458,601	375,511

The following is a summary of the changes in our preferred shares outstanding for 2007, 2006 and 2005:

	6.00%	5.00% (2003)	4.125%	5.00% (2005)	4.50%	5.00% (2005B)	6.25%
				(in thousands)			
Shares outstanding at January 1, 2007	—	—	3	4,600	3,450	5,750	2,300
Preferred stock issuances	—	—	—	—	—	—	—
Conversion/exchange of preferred for common stock	—	—	—	(4,595)	—	—	(2,156)
Shares outstanding at December 31, 2007	—	—	3	5	3,450	5,750	144
Shares outstanding at January 1, 2006	99	1,026	89	4,600	3,450	5,750	—
Preferred stock issuances	—	—	—	—	—	—	2,300
Conversion/exchange of preferred for common stock	(99)	(1,026)	(86)	—	—	—	—
Shares outstanding at December 31, 2006	—	—	3	4,600	3,450	5,750	2,300
Shares outstanding at January 1, 2005	103	1,725	313	—	—	—	—
Preferred stock issuances	—	—	—	4,600	3,450	5,750	—
Conversion/exchange of preferred for common stock	(4)	(699)	(224)	—	—	—	—
Shares outstanding at December 31, 2005	99	1,026	89	4,600	3,450	5,750	—

In 2007, shares of our preferred stock were exchanged for or converted into common stock as follows:

- 3 shares of 4.125% cumulative convertible preferred stock were converted 180 shares of common stock pursuant to conversion rights;
- 59,120 shares of 5.0% (Series 2005) cumulative convertible preferred stock were exchanged for 244,420 shares of common stock in a privately negotiated exchange transaction;
- 4,535,880 shares of 5.0% (Series 2005) cumulative convertible preferred stock were exchanged for 19,038,891 shares of common stock pursuant to our tender offer for the shares;
- 48 shares of 6.25% mandatory convertible preferred stock were converted into 344 shares of common stock pursuant to the holder's conversion rights; and

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- 2,156,184 shares of 6.25% mandatory convertible preferred stock were exchanged for 17,367,823 shares of common stock pursuant to our tender offer for the shares.

In 2006, shares of our preferred stock were exchanged for or converted into common stock as follows:

- 221,898 shares of 5.0% (Series 2003) cumulative convertible preferred stock were exchanged for or converted into 1,375,670 shares of common stock in privately negotiated exchange transactions or pursuant to conversion rights;
- 804,048 shares of 5.0% (Series 2003) cumulative convertible preferred stock were exchanged for 4,972,786 shares of common stock pursuant to our tender offer for the shares;
- 2,750 shares of 4.125% cumulative convertible preferred stock were exchanged for 172,594 shares of common stock in privately negotiated exchange transactions;
- 83,245 shares of 4.125% cumulative convertible preferred stock were exchanged for 5,248,126 shares of common stock pursuant to our tender offer for the shares; and
- the remaining 99,310 shares of 6.0% cumulative convertible preferred stock were exchanged for or converted into 482,694 shares of common stock in privately negotiated exchange transactions or pursuant to conversion rights.

In 2005, shares of our preferred stock were exchanged for or converted into common stock as follows:

- 3,800 shares of 6.00% cumulative convertible preferred stock were converted into 18,468 shares of common stock;
- 699,054 shares of 5.00% (Series 2003) cumulative convertible preferred stock were exchanged into 4,362,720 shares of common stock; and
- 224,190 shares of 4.125% cumulative convertible preferred stock were exchanged into 14,321,881 shares of common stock.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Dividends on our outstanding preferred stock are payable quarterly in cash or, with respect to our 6.25% mandatory convertible preferred stock and our 4.50% cumulative convertible preferred stock, we may pay dividends in cash, common stock or a combination thereof. Following is a summary of our preferred stock, including the primary conversion terms as of December 31, 2007:

Preferred Stock Series	Issue Date	Liquidation Preference per Share	Holder's Conversion Right	Conversion Rate	Conversion Price	Company's Conversion Right From	Company's Market Conversion Trigger
6.25% Mandatory Convertible (a)	June/July 2006	$ 250	Any time	7.1725	$ 34.8551	Any time	$ 52.2827(b)
5.00% (Series 2005) Cumulative Convertible	April 2005	$ 100	Any time	3.8864	$ 25.7308	April 15, 2010	$ 33.4503(c)
4.50% Cumulative Convertible	September 2005	$ 100	Any time	2.2640	$ 44.1690	September 15, 2010	$ 57.4197(c)
5.00% (Series 2005B) Cumulative Convertible	November 2005	$ 100	Any time	2.5599	$ 39.0645	November 15, 2010	$ 50.7839(c)
4.125% Cumulative Convertible	March/April 2004	$ 1,000	Market price >$ 21.62	60.1374	$ 16.6286	March 15, 2009	$ 21.6200(c)

(a) Each share converts automatically on June 15, 2009 into 7.1725 to 8.6071 shares of common stock, depending on the common stock market price at the time.
(b) Convertible at initial conversion rate plus cash equal to present value of future dividends to June 15, 2009.
(c) Convertible at the company's option if the company's common stock equals or exceeds the trigger price for a specified time period.

Stock-Based Compensation Plans

Under Chesapeake's Long Term Incentive Plan, restricted stock, stock options, stock appreciation rights, performance shares and other stock awards may be awarded to employees, directors and consultants of Chesapeake. Subject to any adjustments as provided by the plan, the aggregate number of shares of common stock available for awards under the plan may not exceed 17,000,000 shares. The maximum period for exercise of an option or stock appreciation right may not be more than ten years from the date of grant and the exercise price may not be less than the fair market value of the shares underlying the option or stock appreciation right on the date of grant. Awards granted under the plan become vested at dates or upon the satisfaction of certain performance or other criteria determined by a committee of the Board of Directors. No awards may be granted under this plan after September 30, 2014. This plan has been approved by our shareholders. Stock options to purchase 150,000 shares of our common stock were issued to our directors from this plan in 2005. In addition, 87,500, 75,000 and 62,500 shares of restricted stock were issued to our directors from this plan in 2007, 2006 and 2005, respectively. There were 14.7 million and 2,610 restricted shares issued, net of forfeitures to employees and consultants during 2007 and 2006, respectively from this plan. As of December 31, 2007, there were 2,010,000 shares remaining available for issuance under the plan.

Under Chesapeake's 2003 Stock Incentive Plan, restricted stock and incentive and nonqualified stock options to purchase our common stock may be awarded to employees and consultants of Chesapeake. Subject to any adjustments as provided by the plan, the aggregate number of shares available for awards under the plan may not exceed 10,000,000 shares. The maximum period for exercise of an option may not be more than ten years from the date of grant and the exercise price may not be less than the fair market value of the shares underlying the option on the date of grant. Restricted stock and options granted become vested at dates determined by a committee of the Board of Directors. No awards may be granted under this plan after April 14, 2013. This plan has been approved by our shareholders. There were 0.2 million, 4.0 million and 3.9 million restricted shares, net of forfeitures, issued during 2007, 2006 and 2005, respectively, from this plan. As of December 31, 2007, there were 450,562 shares remaining available for issuance under the plan.

Under Chesapeake's 2003 Stock Award Plan for Non-Employee Directors, 10,000 shares of Chesapeake's common stock are awarded to each newly appointed non-employee director on his or her first day of service. Subject to any adjustments as provided by the plan, the aggregate number of shares which may be issued may not exceed 100,000 shares. This plan has been approved by our shareholders. In each of 2007, 2006 and 2005, 10,000 shares of common stock were awarded to new directors from this plan. As of December 31, 2007, there were 60,000 shares remaining available for issuance under this plan.

Under Chesapeake's 2002 Non-Employee Director Stock Option Plan and 1992 Nonstatutory Stock Option Plan, we granted nonqualified options to purchase our common stock to members of our Board of Directors who are not Chesapeake employees. Subject to any adjustments provided for in the plans, the 2002 plan and the 1992 plan covered a maximum of 500,000 shares and 3,132,000 shares, respectively. The 1992 plan terminated in December 2002 and the 2002 plan terminated in June 2005. Pursuant to a formula award provision in the plans, each non-employee director received a quarterly grant of a ten-year immediately exercisable option to purchase shares of common stock at an exercise price equal to the fair market value of the shares on the date of grant. Both plans were approved by our shareholders.

In addition to the plans described above, we have stock options outstanding to employees under a number of employee stock option plans which are described below. All outstanding options under these plans were at-the-money when granted, with an exercise price equal to the closing price of our common stock on the date of grant and have a ten-year exercise period. These plans were terminated in June 2005 (with the exception of the 1994 plan which expired in October 2004) and therefore no shares remain available for stock option grants under the plans.

Name of Plan	Eligible Participants	Type of Options	Shares Covered	Shareholder Approved
2002 and 2001 Stock Option Plans	Employees and consultants	Incentive and nonqualified	3,000,000/3,200,000	Yes
2002 and 2001 Nonqualified Stock Option Plans	Employees and consultants	Nonqualified	4,000,000/3,000,000	No
2000 and 1999 Employee Stock Option Plans	Employees and consultants	Nonqualified	3,000,000 (each plan)	No
1996 and 1994 Stock Option Plans	Employees and consultants	Incentive and nonqualified	6,000,000/4,886,910	Yes

Restricted Stock

Chesapeake began issuing shares of restricted common stock to employees in January 2004 and to non-employee directors in July 2005. The fair value of the awards issued is determined based on the fair market value of the shares on the date of grant. This value is amortized over the vesting period, which is generally four years from the date of grant for employees and three years for non-employee directors. To the extent amortization of compensation cost relates to employees directly involved in acquisition, exploration and development activities, such amounts are capitalized to oil and natural gas properties. Amounts not capitalized to oil and natural gas properties are recognized in general and administrative expense or production expense. Note 1 details the accounting for our stock-based compensation expense in 2007, 2006 and 2005. As of December 31, 2005, the unamortized balance of unearned compensation recorded as a reduction of stockholders' equity was $89 million. Upon adoption of SFAS 123(R) in January 2006, we eliminated the unamortized balance of unearned compensation in stockholders' equity ($89 million) and reduced additional paid-in capital by the same amount on our consolidated balance sheet.

A summary of the status of the unvested shares of restricted stock and changes during 2007, 2006 and 2005 is presented below:

	Number of Unvested Restricted Shares	Weighted Average Grant-Date Fair Value
Unvested shares as of January 1, 2007	7,074,761	$ 25.85
Granted	15,560,570	34.25
Vested	(2,255,384)	24.34
Forfeited	(691,188)	33.29
Unvested shares as of December 31, 2007	19,688,759	$ 32.42
Unvested shares as of January 1, 2006	5,805,210	$ 18.38
Granted	4,392,270	31.77
Vested	(2,818,249)	19.78
Forfeited	(304,470)	25.04
Unvested shares as of December 31, 2006	7,074,761	$ 25.85
Unvested shares as of January 1, 2005	2,684,850	$ 14.35
Granted	3,940,405	20.41
Vested	(739,255)	14.71
Forfeited	(80,790)	17.09
Unvested shares as of December 31, 2005	5,805,210	$ 18.38

The aggregate intrinsic value of restricted stock vested during 2007 was approximately $73 million.

As of December 31, 2007, there was $565 million of total unrecognized compensation cost related to unvested restricted stock. The cost is expected to be recognized over a weighted average period of 3.11 years.

The vesting of certain restricted stock grants results in state and federal income tax benefits related to the difference between the market price of the common stock at the date of vesting and the date of grant. During the years ended December 31, 2007, 2006 and 2005, we recognized excess tax benefits related to restricted stock of $5 million, $4 million and $2 million, respectively, which were recorded as adjustments to additional paid-in capital and deferred income taxes with respect to such benefits.

Our President and Chief Operating Officer, Tom L. Ward, resigned as a director, officer and employee of the company effective February 10, 2006. Mr. Ward's Resignation Agreement provided for the immediate vesting of all of his unvested equity awards, which consisted of options to purchase 724,615 shares of Chesapeake's common stock at an average exercise price of $8.01 per share and 1,291,875 shares of restricted common stock. As a result of this vesting, we incurred an expense of $55 million in 2006.

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Stock Options

We granted stock options prior to 2006 under several stock compensation plans. Outstanding options expire ten years from the date of grant and become exercisable over a four-year period.

The following table provides information related to stock option activity for 2007, 2006 and 2005:

	Number of Shares Underlying Options	Weighted Average Exercise Price Per Share	Weighted Average Contract Life in Years	Aggregate Intrinsic Value (a) ($ in millions)
Outstanding at January 1, 2007	6,605,703	$ 7.43		
Exercised	(2,146,640)	7.16		$ 61
Forfeited/ Canceled	(13,608)	9.90		
Outstanding at December 31, 2007	4,445,455	$ 7.55	4.37	$ 141
Exercisable at December 31, 2007	4,422,519	$ 7.51	4.36	$ 140
Shares authorized for future grants	2,460,562			
Fair value of options granted during period	$ —			
Outstanding at January 1, 2006	20,256,013	$ 6.14		
Exercised	(13,494,835)	5.34		$ 352
Forfeited/ Canceled	(155,475)	20.22		
Outstanding at December 31, 2006	6,605,703	$ 7.43	5.36	$ 143
Exercisable at December 31, 2006	5,337,153	$ 7.02	5.14	$ 118
Shares authorized for future grants	6,719,642			
Fair value of options granted during period	$ —			
Outstanding at January 1, 2005	24,228,464	$ 6.00		
Granted	177,500	18.67		
Exercised	(4,032,180)	5.78		
Forfeited/ Canceled	(117,771)	8.51		
Outstanding at December 31, 2005	20,256,013	$ 6.14		
Exercisable at December 31, 2005	15,960,440	$ 5.57		
Shares authorized for future grants	6,452,444			
Fair value of options granted during period	$ 6.21			

(a) The intrinsic value of a stock option is the amount by which the current market value or the market value upon exercise of the underlying stock exceeds the exercise price of the option.

As of December 31, 2007, unrecognized compensation cost related to unvested stock options was not significant.

During the years ended December 31, 2007, 2006 and 2005, we recognized excess tax benefits related to stock options of $15 million, $84 million and $16 million, respectively, which were recorded as adjustments to additional paid-in capital and deferred income taxes with respect to such benefits.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

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The following table summarizes information about stock options outstanding at December 31, 2007:

	Outstanding Options			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price	Number Exercisable	Weighted-Avg. Exercise Price
$ 0.94 – $ 4.00	458,063	1.75	$ 2.65	458,063	$ 2.65
5.20 – 5.20	502,623	4.56	5.20	502,623	5.20
5.35 – 5.89	313,277	2.98	5.57	313,277	5.57
6.11 – 6.11	942,023	3.76	6.11	942,023	6.11
6.40 – 7.74	172,377	3.75	6.92	172,377	6.92
7.80 – 7.80	663,684	5.01	7.80	663,684	7.80
7.86 – 10.01	184,331	4.75	8.51	184,331	8.51
10.08 – 10.08	738,818	5.47	10.08	738,818	10.08
10.10 – 16.08	414,009	6.22	13.48	391,073	13.44
22.49 – 22.49	56,250	7.25	22.49	56,250	22.49
$ 0.94 – $22.49	4,445,455	4.37	$ 7.55	4,422,519	$ 7.51

Shareholder Rights Plan

Chesapeake maintains a shareholder rights plan designed to deter coercive or unfair takeover tactics, to prevent a person or group from gaining control of Chesapeake without offering fair value to all shareholders and to deter other abusive takeover tactics which are not in the best interest of shareholders.

Under the terms of the plan, each share of common stock is accompanied by one right, which given certain acquisition and business combination criteria, entitles the shareholder to purchase from Chesapeake one one-thousandth of a newly issued share of Series A preferred stock at a price of $25.00, subject to adjustment by Chesapeake.

The rights become exercisable 10 days after Chesapeake learns that an acquiring person (as defined in the plan) has acquired 15% or more of the outstanding common stock of Chesapeake or 10 business days after the commencement of a tender offer which would result in a person owning 15% or more of such shares. Chesapeake may redeem the rights for $0.01 per right within ten days following the time Chesapeake learns that a person has become an acquiring person. The rights will expire on July 27, 2008, unless redeemed earlier by Chesapeake.

10. Financial Instruments and Hedging Activities

Oil and Natural Gas Hedging Activities

Our results of operations and operating cash flows are impacted by changes in market prices for oil and natural gas. To mitigate a portion of the exposure to adverse market changes, we have entered into various derivative instruments. As of December 31, 2007, our oil and natural gas derivative instruments were comprised of swaps, basis protection swaps, knockout swaps, cap-swaps, call options and collars. These instruments allow us to predict with greater certainty the effective oil and natural gas prices to be received for our hedged production. Although derivatives often fail to achieve 100% effectiveness for accounting purposes, we believe our derivative instruments continue to be highly effective in achieving the risk management objectives for which they were intended.

- For swap instruments, Chesapeake receives a fixed price for the hedged commodity and pays a floating market price to the counterparty. The fixed-price payment and the floating-price payment are netted, resulting in a net amount due to or from the counterparty.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- Basis protection swaps are arrangements that guarantee a price differential for oil or natural gas from a specified delivery point. For Mid-Continent basis protection swaps, which have negative differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract. For Appalachian Basin basis protection swaps, which have positive differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is less than the stated terms of the contract and pays the counterparty if the price differential is greater than the stated terms of the contract.
- For knockout swaps, Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for the possibility to reduce the counterparty's exposure to zero, in any given month, if the floating market price is lower than certain pre-determined knockout prices.
- For cap-swaps, Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for a "cap" limiting the counterparty's exposure. In other words, there is no limit to Chesapeake's exposure but there is a limit to the downside exposure of the counterparty.
- For call options, Chesapeake receives a premium from the counterparty in exchange for the sale of a call option. If the market price exceeds the fixed price of the call option, Chesapeake pays the counterparty such excess. If the market price settles below the fixed price of the call option, no payment is due from Chesapeake.
- Collars contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, Chesapeake receives the fixed price and pays the market price. If the market price is between the call and the put strike price, no payments are due from either party.

Chesapeake enters into counter-swaps from time to time for the purpose of locking-in the value of a swap. Under the counter-swap, Chesapeake receives a floating price for the hedged commodity and pays a fixed price to the counterparty. The counter-swap is 100% effective in locking-in the value of a swap since subsequent changes in the market value of the swap are entirely offset by subsequent changes in the market value of the counter-swap. We refer to this locked-in value as a locked swap. Generally, at the time Chesapeake enters into a counter-swap, Chesapeake removes the original swap's designation as a cash flow hedge and classifies the original swap as a non-qualifying hedge under SFAS 133. The reason for this new designation is that collectively the swap and the counter-swap no longer hedge the exposure to variability in expected future cash flows. Instead, the swap and counter-swap effectively lock-in a specific gain (or loss) that will be unaffected by subsequent variability in oil and natural gas prices. Any locked-in gain or loss is recorded in accumulated other comprehensive income and reclassified to oil and natural gas sales in the month of related production.

With respect to counter-swaps that are designed to lock-in the value of cap-swaps, the counter-swap is effective in locking-in the value of the cap-swap until the floating price reaches the cap (or floor) stipulated in the cap-swap agreement. The value of the counter-swap will increase (or decrease), but in the opposite direction, as the value of the cap-swap decreases (or increases) until the floating price reaches the pre-determined cap (or floor) stipulated in the cap-swap agreement. However, because of the written put option embedded in the cap-swap, the changes in value of the cap-swap are not completely effective in offsetting changes in value of the corresponding counter-swap. Changes in the value of cap-swaps and counter-swaps are recorded as adjustments to oil and natural gas sales.

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In accordance with FASB Interpretation No. 39, to the extent that a legal right of set-off exists, Chesapeake nets the value of its derivative arrangements with the same counterparty in the accompanying condensed consolidated balance sheets.

Gains or losses from certain derivative transactions are reflected as adjustments to oil and natural gas sales on the consolidated statements of operations. Realized gains (losses) are included in oil and natural gas sales in the month of related production. Pursuant to SFAS 133, certain derivatives do not qualify for designation as cash flow hedges. Changes in the fair value of these non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the consolidated statements of operations as unrealized gains (losses) within oil and natural gas sales. Following provisions of SFAS 133, changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributable to the hedged risk, are recorded in other comprehensive income until the hedged item is recognized in earnings. Any change in fair value resulting from ineffectiveness is recognized currently in oil and natural gas sales as unrealized gains (losses). The components of oil and natural gas sales for the years ended December 31, 2007, 2006 and 2005 are presented below.

	Years Ended December 31,		
	2007	2006	2005
	($ in millions)		
Oil and natural gas sales	$4,795	$3,870	$3,633
Realized gains on oil and natural gas derivatives	1,203	1,254	(401)
Unrealized gains (losses) on non-qualifying oil and natural gas derivatives	(252)	184	117
Unrealized gains (losses) on ineffectiveness of cash flow hedges	(122)	311	(76)
Total oil and natural gas sales	$5,624	$5,619	$3,273

The estimated fair values of our oil and natural gas derivative instruments as of December 31, 2007 and 2006 are provided below. The associated carrying values of these instruments are equal to the estimated fair values.

	December 31, 2007	December 31, 2006
	($ in millions)	
Derivative assets (liabilities):		
Fixed-price natural gas swaps	$ (54)	$ 1
Natural gas basis protection swaps	151	187
Fixed-price natural gas knockout swaps	108	122
Fixed-price natural gas counter-swaps	—	(5)
Natural gas call options (a)	(230)	(5)
Fixed-price natural gas collars (b)	4	(7)
Fixed-price oil swaps	(110)	28
Fixed-price oil cap-swaps	(17)	24
Fixed-price oil knockout swaps	(125)	—
Oil call options (c)	(96)	—
Estimated fair value	$ (369)	$ 345

(a) After adjusting for $255 million and $15 million of unrealized premiums, the cumulative unrealized gain (loss) related to these call options as of December 31, 2007 and 2006 was $25 million and $10 million, respectively.

(b) After adjusting for $8 million of unrealized discount, the cumulative unrealized loss related to these collars as of December 31, 2007 was $4 million.

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(c) After adjusting for $29 million of unrealized premiums, the cumulative unrealized loss related to these call options as of December 31, 2007 was ($67) million.

In 2006 and 2007, Chesapeake lifted or assigned a portion of its 2008 through 2022 hedges and as a result has approximately $215 million of deferred hedging gains as of December 31, 2007. These gains have been recorded in accumulated other comprehensive income or as an unrealized gain in oil and natural gas sales. For amounts originally recorded in other comprehensive income, the gain will be recognized in oil and natural gas sales in the month of the hedged production.

Based upon the market prices at December 31, 2007, we expect to transfer approximately $127 million (net of income taxes) of the gain included in the balance in accumulated other comprehensive income to earnings during the next 12 months in the related month of production. All transactions hedged as of December 31, 2007 are expected to mature by December 31, 2022.

We have six secured hedging facilities, each of which permits us to enter into cash-settled oil and natural gas commodity transactions, valued by the counterparty, for up to a maximum value. Outstanding transactions under each facility are collateralized by certain of our oil and natural gas properties that do not secure any of our other obligations. The hedging facilities are subject to a per annum exposure fee, which is assessed quarterly based on the average of the daily negative fair value amounts of the hedges, if any, during the quarter. The hedging facilities contain the standard representations and default provisions that are typical of such agreements. The agreements also contain various restrictive provisions which govern the aggregate oil and natural gas production volumes that we are permitted to hedge under all of our agreements at any one time. The maximum permitted value of transactions under each facility, per annum exposure fees, scheduled maturity dates and the fair value of outstanding transactions are shown below.

	Secured Hedging Facilities (a)					
	#1	#2	#3	#4	#5	#6
	($ in millions)					
Maximum permitted value of transactions under facility	$ 750	$ 500	$ 500	$ 250	$ 500	$ 500
Per annum exposure fee	1%	1%	1%	0.8%	0.8%	0.8%
Scheduled maturity date	2010	2010	2011	2012	2012	2012
Fair value of outstanding transactions, as of December 31, 2007	$ 1	$ (144)	$ (97)	$ (19)	$ (37)	$ (53)

(a) Chesapeake Exploration, L.L.C. is the named party to the facilities numbered 1-3 and Chesapeake Energy Corporation is the named party to the facilities numbered 4-6.

We assumed certain liabilities related to open derivative positions in connection with our acquisition of Columbia Natural Resources, LLC in November 2005. In accordance with SFAS 141, these derivative positions were recorded at fair value in the purchase price allocation as a liability of $592 million. The recognition of the derivative liability and other assumed liabilities resulted in an increase in the total purchase price which was allocated to the assets acquired. Because of this accounting treatment, only cash settlements for changes in fair value subsequent to the acquisition date for the derivative positions assumed result in adjustments to our oil and natural gas revenues upon settlement. For example, if the fair value of the derivative positions assumed does not change, then upon the sale of the underlying production and corresponding settlement of the derivative positions, cash would be paid to the counterparties and there would be no adjustment to oil and natural gas revenues related to the derivative positions. If, however, the actual sales price is different from the price assumed in the original fair value calculation, the difference would be reflected as either a decrease or increase in oil and natural gas revenues, depending upon whether the sales price was higher or lower, respectively, than the prices assumed in

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the original fair value calculation. For accounting purposes, the net effect of these acquired hedges is that we hedged the production volumes at market prices on the date of our acquisition of CNR.

Pursuant to Statement of Financial Accounting Standards No. 149, *Amendment of SFAS 133 on Derivative Instruments and Hedging Activities*, the derivative instruments assumed in connection with the CNR acquisition are deemed to contain a significant financing element, and all cash flows associated with these positions are reported as financing activity in the statement of cash flows for the periods in which settlement occurs. The aggregate fair value of the remaining CNR derivatives as of December 31, 2007 was a liability of $184 million.

Interest Rate Derivatives

We use interest rate derivatives to mitigate our exposure to the volatility in interest rates. For interest rate derivative instruments designated as fair value hedges (in accordance with SFAS 133), changes in fair value are recorded on the consolidated balance sheets as assets (liabilities), and the debt's carrying value amount is adjusted by the change in the fair value of the debt subsequent to the initiation of the derivative. Changes in the fair value of derivative instruments not qualifying as fair value hedges are recorded currently as adjustments to interest expense.

Gains or losses from derivative transactions are reflected as adjustments to interest expense on the consolidated statements of operations. Realized gains (losses) included in interest expense were ($1) million, ($2) million and $5 million in 2007, 2006 and 2005, respectively. Pursuant to SFAS 133, certain derivatives do not qualify for designation as fair value hedges. Changes in the fair value of these non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the consolidated statements of operations as unrealized gains (losses) within interest expense. Unrealized gains (losses) included in interest expense were ($40) million, $2 million and $2 million in 2007, 2006 and 2005, respectively.

As of December 31, 2007, the following interest rate derivatives were outstanding:

	Notional Amount ($ in millions)	Weighted Average Fixed Rate	Weighted Average Floating Rate	Weighted Average Cap/ Floor Rate	Fair Value Hedge	Net Premiums ($ in millions)	Fair Value ($ in millions)
Fixed to Floating Swaps:							
July 2005 – January 2018	$ 1,500	6.750%	6 month LIBOR plus 164 basis points	—	Yes	$ —	$ 28
September 2004 – July 2013	$ 325	7.942%	6 month LIBOR plus 297 basis points	—	No	—	9
Floating to Fixed Swaps:							
August 2007 – July 2010	$ 750	4.803%	3 month LIBOR	—	No	—	(14)
Call Options:							
August 2007 – February 2008	$ 750	6.875%	—	—	No	6	(32)
Collars:							
August 2007 – August 2010	$ 1,075	—	—	5.37% – 4.32%	No	—	(20)
						$ 6	$ (29)

In 2007, we sold call options on six of our interest rate swaps and received $11 million in premiums. Two of the options expired unexercised in 2007.

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In 2007, we closed ten interest rate swaps for gains totaling $18 million. These interest rate swaps were designated as fair value hedges, and the settlement amounts received will be amortized as a reduction to realized interest expense over the remaining term of the related senior notes.

Foreign Currency Derivatives

On December 6, 2006, we issued €600 million of 6.25% Euro-denominated Senior Notes due 2017. Concurrent with the issuance of the euro-denominated senior notes, we entered into a cross currency swap to mitigate our exposure to fluctuations in the euro relative to the dollar over the term of the notes. Under the terms of the cross currency swap, on each semi-annual interest payment date, the counterparties will pay Chesapeake €19 million and Chesapeake will pay the counterparties $30 million, which will yield an annual dollar-equivalent interest rate of 7.491%. Upon maturity of the notes, the counterparties will pay Chesapeake €600 million and Chesapeake will pay the counterparties $800 million. The terms of the cross currency swap were based on the dollar/euro exchange rate on the issuance date of $1.3325 to €1.00. Through the cross currency swap, we have eliminated any potential variability in Chesapeake's expected cash flows related to changes in foreign exchange rates and therefore the swap qualifies as a cash flow hedge under SFAS 133. The euro-denominated debt is recorded in notes payable ($876 million at December 31, 2007) using an exchange rate of $1.4603 to €1.00. The fair value of the cross currency swap is recorded on the consolidated balance sheet as an asset of $23 million at December 31, 2007. The translation adjustment to notes payable is completely offset by the fair value of the cross currency swap and therefore there is no impact to the consolidated statement of operations. The remaining value of the cross currency swap related to future interest payments is reported in other comprehensive income.

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*. We have determined the estimated fair values by using available market information and valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying values of financial instruments comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. We estimate the fair value of our long-term fixed-rate debt and our convertible preferred stock using primarily quoted market prices. Our carrying amounts for such debt, excluding the impact of interest rate derivatives, at December 31, 2007 and 2006 were $8.9 billion and $7.2 billion, respectively, compared to approximate fair values of $9.2 billion and $7.3 billion, respectively. The carrying amounts for our convertible preferred stock as of December 31, 2007 and 2006 were $960 million and $2.0 billion, respectively, compared to approximate fair values of $1.0 billion and $1.9 billion, respectively.

Concentration of Credit Risk

A significant portion of our liquidity is concentrated in derivative instruments that enable us to hedge a portion of our exposure to price volatility from producing oil and natural gas. These arrangements expose us to credit risk from our counterparties. Other financial instruments which potentially subject us to concentrations of credit risk consist principally of investments in equity instruments and accounts receivable. Our accounts receivable are primarily from purchasers of oil and natural gas products and exploration and production companies which own interests in properties we operate. This industry concentration has the potential to impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic, industry or other conditions. We generally require letters of credit for receivables from customers which are judged to have sub-standard credit, unless the credit risk can otherwise be mitigated.

11. Supplemental Disclosures About Oil And Natural Gas Producing Activities

Net Capitalized Costs

Evaluated and unevaluated capitalized costs related to Chesapeake's oil and natural gas producing activities are summarized as follows:

	December 31,	
	2007	2006
	($ in millions)	
Oil and natural gas properties:		
Proved	$27,656	$21,949
Unproved	5,641	3,797
Total	33,297	25,746
Less accumulated depreciation, depletion and amortization	(7,112)	(5,292)
Net capitalized costs	$26,185	$20,454

Unproved properties not subject to amortization at December 31, 2007, 2006 and 2005 consisted mainly of leasehold acquired through corporate and significant oil and natural gas property acquisitions and through direct purchases of leasehold. We capitalized approximately $269 million, $179 million and $79 million of interest during 2007, 2006 and 2005, respectively, on significant investments in unproved properties that were not yet included in the amortization base of the full-cost pool. We will continue to evaluate our unevaluated properties; however, the timing of the ultimate evaluation and disposition of the properties has not been determined.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Costs Incurred in Oil and Natural Gas Acquisition, Exploration and Development

Costs incurred in oil and natural gas property acquisition, exploration and development activities which have been capitalized are summarized as follows:

	December 31,		
	2007	2006 ($ in millions)	2005
Development and exploration costs:			
Development drilling (a)	$4,402	$2,772	$1,567
Exploratory drilling	653	349	253
Geological and geophysical costs (b)	343	154	71
Asset retirement obligation and other	29	23	52
Total	5,427	3,298	1,943
Acquisition costs:			
Proved properties	671	1,175	3,554
Unproved properties (c)	2,465	3,473	1,667
Deferred income taxes	131	180	252
Total	3,267	4,828	5,473
Total	$8,694	$8,126	$7,416

(a) Includes capitalized internal cost of $243 million, $147 million and $94 million, respectively.
(b) Includes capitalized internal cost of $19 million, $13 million and $8 million, respectively.
(c) Includes costs to acquire new leasehold, unproved properties and related capitalized interest.

Results of Operations from Oil and Natural Gas Producing Activities (unaudited)

Chesapeake's results of operations from oil and natural gas producing activities are presented below for 2007, 2006 and 2005. The following table includes revenues and expenses associated directly with our oil and natural gas producing activities. It does not include any interest costs or general and administrative costs and, therefore, is not necessarily indicative of the contribution to consolidated net operating results of our oil and natural gas operations.

	Years Ended December 31,		
	2007	2006 ($ in millions)	2005
Oil and natural gas sales (a)	$ 5,624	$ 5,619	$3,273
Production expenses	(640)	(490)	(317)
Production taxesf	(216)	(176)	(208)
Depletion and depreciation	(1,835)	(1,359)	(894)
Imputed income tax provision (b)	(1,115)	(1,383)	(677)
Results of operations from oil and natural gas producing activities	$ 1,818	$ 2,211	$1,177

(a) Includes ($374) million, $495 million and $41 million of unrealized gains (losses) on oil and natural gas derivatives for the years ended December 31, 2007, 2006 and 2005, respectively.
(b) The imputed income tax provision is hypothetical (at the effective income tax rate) and determined without regard to our deduction for general and administrative expenses, interest costs and other income tax credits and deductions, nor whether the hypothetical tax provision will be payable.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Oil and Natural Gas Reserve Quantities (unaudited)

Independent petroleum engineers and Chesapeake's petroleum engineers have evaluated our proved reserves. The portion of the proved reserves (by volume) evaluated by each for 2007, 2006 and 2005 is presented below.

	Years Ended December 31,		
	2007	2006	2005
Netherland, Sewell & Associates, Inc.	34%	32%	25%
Data and Consulting Services, Division of Schlumberger Technology Corporation	12	16	16
Lee Keeling and Associates, Inc.	11	14	15
Ryder Scott Company L.P.	11	10	12
LaRoche Petroleum Consultants, Ltd.	11	8	8
H.J. Gruy and Associates, Inc.	—	—	2
Internal petroleum engineers	21	20	22
	100%	100%	100%

The information below on our oil and natural gas reserves is presented in accordance with regulations prescribed by the Securities and Exchange Commission. Chesapeake emphasizes that reserve estimates are inherently imprecise. Our reserve estimates were generally based upon extrapolation of historical production trends, analogy to similar properties and volumetric calculations. Accordingly, these estimates are expected to change, and such changes could be material and occur in the near term as future information becomes available.

Proved oil and natural gas reserves represent the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by natural gas-oil and/or oil-water contacts, if any, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir. Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

Proved developed oil and natural gas reserves are those expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and natural gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production responses that increased recovery will be achieved.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Presented below is a summary of changes in estimated reserves of Chesapeake for 2007, 2006 and 2005:

	Oil (mbbl)	Gas (mmcf)	Total (mmcfe)
December 31, 2007			
Proved reserves, beginning of period	106,030	8,319,434	8,955,614
Extensions, discoveries and other additions	11,644	1,053,123	1,122,986
Revisions of previous estimates	7,732	1,298,802	1,345,195
Production	(9,882)	(654,969)	(714,261)
Sale of reserves-in-place	—	(208,141)	(208,141)
Purchase of reserves-in-place	8,030	329,050	377,230
Proved reserves, end of period	123,554	10,137,299	10,878,623
Proved developed reserves:			
Beginning of period	76,705	5,113,211	5,573,441
End of period	88,834	6,408,622	6,941,626
December 31, 2006			
Proved reserves, beginning of period	103,323	6,900,754	7,520,690
Extensions, discoveries and other additions	8,456	777,858	828,594
Revisions of previous estimates	(3,822)	539,606	516,676
Production	(8,654)	(526,459)	(578,383)
Sale of reserves-in-place	(3)	(123)	(141)
Purchase of reserves-in-place	6,730	627,798	668,178
Proved reserves, end of period	106,030	8,319,434	8,955,614
Proved developed reserves:			
Beginning of period	76,238	4,442,270	4,899,694
End of period	76,705	5,113,211	5,573,441
December 31, 2005			
Proved reserves, beginning of period	87,960	4,373,989	4,901,751
Extensions, discoveries and other additions	12,460	930,800	1,005,563
Revisions of previous estimates	(2,123)	53,950	41,204
Production	(7,698)	(422,389)	(468,577)
Sale of reserves-in-place	(26)	(332)	(486)
Purchase of reserves-in-place	12,750	1,964,736	2,041,235
Proved reserves, end of period	103,323	6,900,754	7,520,690
Proved developed reserves:			
Beginning of period	62,713	2,842,141	3,218,418
End of period	76,238	4,442,270	4,899,694

During 2007, Chesapeake acquired approximately 377 bcfe of proved reserves through purchases of oil and natural gas properties for consideration of $671 million (primarily in 10 separate transactions of greater than $10 million each). In December 2007, we sold 208 bcfe of our proved reserves and production in certain Chesapeake-operated producing assets in Kentucky and West Virginia for approximately $1.1 billion. During 2007, we recorded positive revisions of 1.345 tcfe to the December 31, 2006 estimates of our reserves. Included in the revisions were 97 bcfe of positive adjustments caused by higher natural gas prices at December 31, 2007, and 1.248 tcfe of positive performance related revisions of which 1.207 tcfe relate to infill drilling and increased density locations. Higher prices extend the economic lives of the underlying oil and natural gas properties and thereby increase the estimated future reserves. The weighted average oil and natural gas wellhead prices used in computing our reserves were $90.58 per bbl and $6.19 per mcf at December 31, 2007.

During 2006, Chesapeake acquired approximately 668 bcfe of proved reserves through purchases of oil and natural gas properties for consideration of $1.176 billion (primarily in 15 separate transactions of greater than $10 million each). During 2006, we recorded upward revisions of 517 bcfe to the December 31, 2005 estimates of our reserves. Included in the revisions were 212 bcfe of downward adjustments caused by lower natural gas prices at December 31, 2006, offset by 729 bcfe of positive performance related revisions of which 710 bcfe relate to infill drilling and increased density locations. Lower prices reduce the economic lives of the underlying oil and natural gas properties and thereby decrease the estimated future reserves. The weighted average oil and natural gas wellhead prices used in computing our reserves were $56.25 per bbl and $5.41 per mcf at December 31, 2006.

During 2005, Chesapeake acquired approximately 2.041 tcfe of proved reserves through purchases of oil and natural gas properties for consideration of $3.806 billion (primarily in 18 separate transactions of greater than $10 million each). During 2005, we recorded upward revisions of 41 bcfe to the December 31, 2004 estimates of our reserves. Approximately 24 bcfe of the upward revisions was caused by higher oil and natural gas prices at December 31, 2005. Higher prices extend the economic lives of the underlying oil and natural gas properties and thereby increase the estimated future reserves. The weighted average oil and natural gas wellhead prices used in computing our reserves were $56.41 per bbl and $8.76 per mcf at December 31, 2005.

Standardized Measure of Discounted Future Net Cash Flows (unaudited)

Statement of Financial Accounting Standards No. 69 prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. Chesapeake has followed these guidelines which are briefly discussed below.

Future cash inflows and future production and development costs are determined by applying year-end prices and costs to the estimated quantities of oil and natural gas to be produced. Actual future prices and costs may be materially higher or lower than the year-end prices and costs used. Estimates are made of quantities of proved reserves and the future periods during which they are expected to be produced based on year-end economic conditions. Estimated future income taxes are computed using current statutory income tax rates including consideration for the current tax basis of the properties and related carryforwards, giving effect to permanent differences and tax credits. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect our expectations of actual revenue to be derived from those reserves nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates reflect the valuation process.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following summary sets forth our future net cash flows relating to proved oil and natural gas reserves based on the standardized measure prescribed in SFAS 69:

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
Future cash inflows	$ 73,955(a)	$ 50,984(b)	$ 66,287(c)
Future production costs	(19,319)	(13,790)	(14,795)
Future development costs	(8,315)	(6,804)	(4,676)
Future income tax provisions	(14,056)	(8,877)	(14,856)
Future net cash flows	32,265	21,513	31,960
Less effect of a 10% discount factor	(17,303)	(11,506)	(15,992)
Standardized measure of discounted future net cash flows	$ 14,962	$ 10,007	$ 15,968

(a) Calculated using weighted average prices of $90.58 per barrel of oil and $6.19 per mcf of natural gas.
(b) Calculated using weighted average prices of $56.25 per barrel of oil and $5.41 per mcf of natural gas.
(c) Calculated using weighted average prices of $56.41 per barrel of oil and $8.76 per mcf of natural gas

The principal sources of change in the standardized measure of discounted future net cash flows are as follows:

	Years Ended December 31,		
	2007	2006	2005
		($ in millions)	
Standardized measure, beginning of period (a)	$10,007	$ 15,968	$ 7,646
Sales of oil and natural gas produced, net of production costs (b)	(3,939)	(3,204)	(3,108)
Net changes in prices and production costs	3,277	(10,954)	3,249
Extensions and discoveries, net of production and development costs	2,424	1,184	3,145
Changes in future development costs	(639)	(743)	(151)
Development costs incurred during the period that reduced future development costs	1,410	954	491
Revisions of previous quantity estimates	2,960	948	123
Purchase of reserves-in-place	1,166	1,135	6,252
Sales of reserves-in-place	(708)	—	(1)
Accretion of discount	1,365	2,293	1,050
Net change in income taxes	(1,970)	3,325	(4,107)
Changes in production rates and other	(391)	(899)	1,379
Standardized measure, end of period (a)	$14,962	$ 10,007	$15,968

(a) The discounted amounts related to cash flow hedges that would affect future net cash flows have not been included in any of the periods presented.
(b) Excluding gains (losses) on derivatives.

12. Asset Retirement Obligations

The components of the change in our asset retirement obligations are shown below:

	Years Ended December 31, 2007	2006
	($ in millions)	
Asset retirement obligations, beginning of period	$ 193	$ 157
Additions	19	22
Revisions (a)	10	3
Settlements and disposals	(1)	(1)
Accretion expense	15	12
Asset retirement obligations, end of period	$ 236	$ 193

(a) Based on increasing service costs, we revised our asset retirement obligation related to oil and natural gas wells in 2007 and 2006.

13. Divestitures

Divestitures

Producing Property Sale. In December 2007, we sold a portion of our proved reserves and production in certain Chesapeake-operated producing assets in Kentucky and West Virginia. In this transaction, we sold a volumetric production payment (VPP) to affiliates of UBS AG and DB Energy Trading LLC (a subsidiary of Deutsche Bank AG) for proceeds of $1.1 billion. Additionally, we assigned certain hedges to the purchaser valued at approximately ($52) million. Proceeds were used to repay outstanding borrowings under our revolving bank credit facility.

The VPP entitles the purchaser to receive scheduled quantities of natural gas from Chesapeake’s interests in over 4,000 producing wells, free of all production costs and production taxes over a 15-year period. The transaction included approximately 208 bcfe of proved reserves and an initial delivery rate of 55 mmcfe per day. As of December 31, 2007, this would equate to approximately 2% of our proved reserves and net production. We have retained drilling rights on the properties below producing intervals and outside of existing producing wellbores as of such date. Our operating and financial results will no longer reflect production and proved reserve volumes associated with the production volumes covered by the VPP transaction. Associated with the transaction, we have committed to purchase the VPP production over the 15 year term at market prices at the time of production, and the purchased gas will be resold. Proceeds from the sale were accounted for as a reduction of oil and natural gas properties and no gain or loss was recognized.

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14. Quarterly Financial Data (unaudited)

Summarized unaudited quarterly financial data for 2007 and 2006 are as follows ($ in millions except per share data):

	Quarters Ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Total revenues	$ 1,580	$2,105	$ 2,027	$ 2,088
Gross profit (a)	486	836	715	612
Net income	258	518(b)	372	303
Net income available to common shareholders	232	493(b)	346	158
Net earnings per common share:				
Basic	$ 0.51	$ 1.09	$ 0.76	$ 0.34
Diluted	$ 0.50	$ 1.01	$ 0.72	$ 0.33

	Quarters Ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Total revenues	$ 1,945	$1,584	$ 1,929	$ 1,868
Gross profit (a)	952	673	953	835
Net income	624(c)	360	548	471
Net income available to common shareholders	604(c)	332	523	445
Net earnings per common share:				
Basic	$ 1.64	$ 0.87	$ 1.25	$ 1.05
Diluted	$ 1.44	$ 0.82	$ 1.13	$ 0.96

(a) Total revenue less operating costs.

(b) Includes a pre-tax gain on sale of investment of $83 million.

(c) Includes a pre-tax employee retirement expense of $55 million and a pre-tax gain on sale of investment of $117 million.

15. Recently Issued Accounting Standards

The FASB recently issued the following standards which were reviewed by Chesapeake to determine the potential impact on our financial statements upon adoption.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*. SFAS 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments we acquire or issue after December 31, 2006. Adoption of SFAS 155 did not have a material effect on our financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of

SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. We are currently assessing the impact, if any, the adoption of this statement will have on our financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement expands the use of fair value measurement and applies to entities that elect the fair value option. The fair value option established by this statement permits all entities to choose to measure eligible items at fair value at specified election dates. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. We are currently assessing the impact, if any, the adoption of this statement will have on our financial position, results of operations or cash flows.

In November 2007, the FASB issued its preliminary views on financial instruments with characteristics of equity as a step preceding the development of a proposed Statement of Financial Accounting Standards. Such a standard would affect accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlements. This accounting could increase the amount of interest expense required to be recognized with respect to such instruments and, thus, lower reported net income and net income per share of issuers of such instruments. Issuers would have to account for the liability and equity components of the instrument separately and in a manner that reflects interest expense at the interest rate of similar nonconvertible debt. We have two debt series that would be affected by such a standard, our 2.75% Contingent Convertible Senior Notes due 2035 and our 2.5% Contingent Convertible Senior Notes due 2037. If the FASB adopts the guidance, it is expected to be effective for fiscal years starting after December 15, 2007. Companies would have to apply the guidance retrospectively to both existing and new instruments that fall within the scope of the guidance.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. This statement requires an entity to separately disclose non-controlling interests as a separate component of equity in the balance sheet and clearly identify on the face of the income statement net income related to non-controlling interests. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. We are currently assessing the impact, if any, the adoption of this statement will have on our financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. This statement requires assets acquired and liabilities assumed to be measured at fair value as of the acquisition date, acquisition related costs incurred prior to the acquisition to be expensed and contractual contingencies to be recognized at fair value as of the acquisition date. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. We are currently assessing the impact, if any, the adoption of this statement will have on our financial position, results of operations or cash flows.

Schedule II

CHESAPEAKE ENERGY CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
($ in millions)

Description	Balance at Beginning of Period	Additions: Charged To Expense	Additions: Charged To Other Accounts	Deductions	Balance at End of Period
December 31, 2007:					
Allowance for doubtful accounts	$ 6	$ 2	$ —	$ —	$ 8
Valuation allowance for deferred tax assets	$ —	$ —	$ —	$ —	$ —
December 31, 2006:					
Allowance for doubtful accounts	$ 5	$ 1	$ —	$ —	$ 6
Valuation allowance for deferred tax assets	$ —	$ —	$ —	$ —	$ —
December 31, 2005:					
Allowance for doubtful accounts	$ 5	$ —	$ —	$ —	$ 5
Valuation allowance for deferred tax assets	$ —	$ —	$ —	$ —	$ —

ITEM 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

ITEM 9A. *Controls and Procedures*

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed by Chesapeake in reports filed or submitted by it under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. As of December 31, 2007, we carried out an evaluation, under the supervision and with the participation of Chesapeake management, including Chesapeake's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Chesapeake's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2007, to ensure that information required to be disclosed by Chesapeake is accumulated and communicated to Chesapeake management, including Chesapeake's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

No changes in the company's internal control over financial reporting occurred during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management's annual report on internal control over financial reporting and the audit report on our internal control over financial reporting of our independent registered public accounting firm are included in Item 8 of this report.

ITEM 9B. *Other Information*

Not applicable.

PART III

ITEM 10. ***Directors, Executive Officers and Corporate Governance***

The information called for by this Item 10 is incorporated herein by reference to the definitive Proxy Statement to be filed by Chesapeake pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 29, 2008.

ITEM 11. ***Executive Compensation***

The information called for by this Item 11 is incorporated herein by reference to the definitive Proxy Statement to be filed by Chesapeake pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 29, 2008.

ITEM 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information called for by this Item 12 is incorporated herein by reference to the definitive Proxy Statement to be filed by Chesapeake pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 29, 2008.

ITEM 13. ***Certain Relationships and Related Transactions and Director Independence***

The information called for by this Item 13 is incorporated herein by reference to the definitive Proxy Statement to be filed by Chesapeake pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 29, 2008.

ITEM 14. ***Principal Accountant Fees and Services***

The information called for by this Item 14 is incorporated herein by reference to the definitive Proxy Statement to be filed by Chesapeake pursuant to Regulation 14A of the General Rules and Regulations under the Securities Exchange Act of 1934 not later than April 29, 2008.

PART IV

ITEM 15. ***Exhibitsand Financial Statement Schedules***

(a) The following documents are filed as part of this report:

1. *Financial Statements.* Chesapeake's consolidated financial statements are included in Item 8 of this report. Reference is made to the accompanying Index to Financial Statements.

2. *Financial Statement Schedules.* Schedule II is included in Item 8 of this report with our consolidated financial statements. No other financial statement schedules are applicable or required.

3. *Exhibits.* The following exhibits are filed herewith pursuant to the requirements of Item 601 of Regulation S-K:

		Incorporated by Reference				
Exhibit Number	**Exhibit Description**	**Form**	**SEC File Number**	**Exhibit**	**Filing Date**	**Filed Herewith**
3.1.1	Chesapeake's Restated Certificate of Incorporation, as amended.	10-Q	001-13726	3.1.1	08/09/2006	
3.1.2	Certificate of Designation for Series A Junior Participating Preferred Stock, as amended.	10-Q	001-13726	3.1.2	08/09/2006	
3.1.3	Certificate of Designation of 4.125% Cumulative Convertible Preferred Stock, as amended.	10-Q	001-13726	3.1.3	05/08/2007	
3.1.4	Certificate of Designation of 5% Cumulative Convertible Preferred Stock (Series 2005B).	8-K	001-13726	3.1	11/09/2005	
3.1.5	Certificate of Designation of 5% Cumulative Convertible Preferred Stock (Series 2005), as amended.					X
3.1.6	Certificate of Designation of 4.5% Cumulative Convertible Preferred Stock.	8-K	001-13726	3.1	09/15/2005	
3.1.7	Certificate of Designation of 6.25% Mandatory Convertible Preferred Stock, as amended.					X
3.2	Chesapeake's Amended and Restated Bylaws.	8-K	001-13726	3.1	06/13/2007	
4.1*	Indenture dated as of May 27, 2004 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors, and the Bank of New York Trust Company, N.A., as Trustee, with respect to 7.5% senior notes due 2014.	S-4	333-116555	4.1	06/17/2004	
4.2*	Indenture dated as of August 2, 2004 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors, and the Bank of New York Trust Company, N.A., as Trustee, with respect to 7.0% senior notes due 2014.	S-4	333-118378	4.1	08/20/2004	

Exhibit Number	Exhibit Description	Incorporated by Reference: Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
4.3*	Indenture dated as of December 20, 2002 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to our 7.75% Senior Notes due 2015.	S-4	333-102445	4.5	01/10/2003	
4.4*	Seventh Amended and Restated Credit Agreement, dated as of November 2, 2007, among Chesapeake Energy Corporation, as the Company, Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C., as Co-Borrowers, Union Bank of California, N.A., as Administrative Agent, The Royal Bank of Scotland, as Syndication Agent, and Bank of America, N.A., SunTrust Bank and BNP Paribas, as Co-Documentation Agents, and the several lenders from time to time parties thereto.	8-K	001-13726	4.1	11/08/2007	
4.4.1*	Consent & Waiver Letter dated December 12, 2007 with respect to the Seventh Amended and Restated Credit Agreement, dated as of November 2, 2007, among Chesapeake Energy Corporation, as the Company, Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C., as Co-Borrowers, Union Bank of California, N.A., as Administrative Agent, The Royal Bank of Scotland, as Syndication Agent, and Bank of America, N.A., SunTrust Bank and BNP Paribas, as Co-Documentation Agents, and the several lenders from time to time parties thereto.					X
4.5*	Indenture dated as of March 5, 2003 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 7.5% Senior Notes due 2013.	S-4	333-104396	4.7	04/09/2003	
4.6*	Indenture dated as of November 26, 2003 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.875% senior notes due 2016.	S-4/A	333-110668	4.2	12/01/2003	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
4.7*	Indenture dated as of December 8, 2004 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A. Trust Company, N.A., as Trustee, with respect to 6.375% senior notes due 2015.	8-K	001-13726	4.1	12/14/2004	
4.8*	Indenture dated as of April 19, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.625% senior notes due 2016.	10-Q	001-13726	4.12	05/10/2005	
4.9*	Indenture dated as of June 20, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.25% senior notes due 2018.	10-Q	001-13726	4.13	08/08/2005	
4.10*	Indenture dated as of August 16, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.50% senior notes due 2017.	8-K	001-13726	4.1	08/16/2005	
4.11*	Indenture dated as of November 8, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.875% senior notes due 2020.	8-K	001-13726	4.1.1	11/15/2005	
4.12*	Indenture dated as of November 8, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 2.75% contingent convertible senior notes due 2035.	8-K	001-13726	4.1.2	11/15/2005	
4.13*	Indenture dated as of June 30, 2006 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 7.625% senior notes due 2013.	8-K	001-13726	4.1	06/30/2006	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
4.14*	Indenture dated as of December 6, 2006 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors, The Bank of New York Trust Company, N.A., as Trustee, AIB/BNY Fund Management (Ireland) Limited, as Irish Paying Agent and Transfer Agent, and The Bank of New York, London Branch, as Registrar, Transfer Agent and Paying Agent, with respect to 6.25% senior notes due 2017.	8-K	001-13726	4.1	12/06/2006	
4.15*	Indenture dated as of May 15, 2007 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 2.50% contingent convertible senior notes due 2037.	8-K	001-13726	4.1	05/15/2007	
10.1.1†	Chesapeake's 2003 Stock Incentive Plan, as amended.	10-Q	001-13726	10.1.1	11/09/2007	
10.1.2†	Chesapeake's 1992 Nonstatutory Stock Option Plan, as amended.	10-Q	001-13726	10.1.2	02/14/1997	
10.1.3†	Chesapeake's 1994 Stock Option Plan, as amended.	10-Q	001-13726	10.1.3	11/07/2006	
10.1.4†	Chesapeake's 1996 Stock Option Plan, as amended.	10-Q	001-13726	10.1.4	11/07/2006	
10.1.5†	Chesapeake's 1999 Stock Option Plan, as amended.	10-Q	001-13726	10.1.5	11/07/2006	
10.1.6†	Chesapeake's 2000 Employee Stock Option Plan, as amended.	10-Q	001-13726	10.1.6	11/07/2006	
10.1.8†	Chesapeake's 2001 Stock Option Plan, as amended.	10-Q	001-13726	10.1.8	11/07/2006	
10.1.10†	Chesapeake's 2001 Nonqualified Stock Option Plan, as amended.	10-Q	001-13726	10.1.10	11/07/2006	
10.1.11†	Chesapeake's 2002 Stock Option Plan, as amended.	10-Q	001-13726	10.1.11	11/07/2006	
10.1.12†	Chesapeake's 2002 Non-Employee Director Stock Option Plan.	DEF14A	001-13726	B	04/29/2002	
10.1.13†	Chesapeake's 2002 Nonqualified Stock Option Plan, as amended.	10-Q	001-13726	10.1.13	11/07/2006	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	SEC File Number	Exhibit	Filing Date	
10.1.14†	Chesapeake's 2003 Stock Award Plan for Non-Employee Directors, as amended.					X
10.1.15†	Chesapeake Energy Corporation 401(k) Make-Up Plan.	10-K	001-13726	10.1.15	02/27/2003	
10.1.16†	Chesapeake Energy Corporation Deferred Compensation Plan.	10-K	001-13726	10.1.16	02/27/2003	
10.1.16.1†	Chesapeake Energy Corporation Amended and Restated Deferred Compensation Plan.					X
10.1.18†	Chesapeake's Amended and Restated Long Term Incentive Plan.	10-Q	001-13726	10.1.18	11/09/2007	
10.1.18.2†	Form of Restricted Stock Award Agreement for the Long Term Incentive Plan.	8-K	001-13726	10.1.18.2	06/16/2005	
10.1.18.3†	Form of Non-Employee Director Restricted Stock Award Agreement for the Long Term Incentive Plan.	8-K	001-13726	10.1.18.3	06/16/2005	
10.1.19†	Founder Well Participation Program.	DEF 14A	001-13726	B	04/29/2005	
10.2.1†	Employment Agreement dated as of January 1, 2008, between Aubrey K. McClendon and Chesapeake Energy Corporation.	8-K	001-13726	10.2.1	12/19/2007	
10.2.2†	Employment Agreement dated as of October 1, 2006 between Marcus C. Rowland and Chesapeake Energy Corporation.	8-K	001-13726	10.2.2	10/06/2006	
10.2.3†	Employment Agreement dated as of October 1, 2006 between Steven C. Dixon and Chesapeake Energy Corporation.	8-K	001-13726	10.2.3	10/06/2006	
10.2.4†	Employment Agreement dated as of October 1, 2006 between J. Mark Lester and Chesapeake Energy Corporation.	8-K	001-13726	10.2.4	10/06/2006	
10.2.5†	Employment Agreement dated as of January 1, 2007 between Douglas J. Jacobson and Chesapeake Energy Corporation.	10-K	001-13726	10.2.5	03/01/2007	
10.2.6†	Form of Employment Agreement between Senior Vice Presidents and Chesapeake Energy Corporation.					X

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
10.3†	Form of Indemnity Agreement for officers and directors of Chesapeake and its subsidiaries.					X
10.4†	Non-Employee Director Compensation.	10-Q	001-13726	10.4	08/09/2006	
10.5†	Named Executive Officer Compensation.					X
10.6	Rights Agreement dated July 15, 1998 between Chesapeake and UMB Bank, N.A., as Rights Agent.	8-A	001-13726	1	07/16/1998	
10.6.1	Amendment No. 1 dated September 11, 1998 to Rights Agreement dated July 15, 1998 between Chesapeake and UMB Bank, N.A., as Rights Agent.	10-Q	001-13726	10.3	11/16/1998	
10.6.2	Amendment No. 2 dated March 3, 2006 to Rights Agreement dated July 15, 1998 between Chesapeake and UMB Bank, N.A., as Rights Agent.	10-K	001-13726	10.6.1	03/14/2006	
12	Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends.					X
21	Subsidiaries of Chesapeake					X
23.1	Consent of Pricewaterhouse Coopers, LLP					X
23.2	Consent of Netherland, Sewell & Associates, Inc.					X
23.3	Consent of Data & Consulting Services, Division of Schlumberger Technology Corporation					X
23.4	Consent of Lee Keeling and Associates, Inc.					X
23.5	Consent of Ryder Scott Company L.P.					X
23.6	Consent of LaRoche Petroleum Consultants, Ltd.					X
31.1	Aubrey K. McClendon, Chairman and Chief Executive Officer, Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Marcus C. Rowland, Executive Vice President and Chief Financial Officer, Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Aubrey K. McClendon, Chairman and Chief Executive Officer, Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	SEC File Number	Exhibit	Filing Date	
32.2	Marcus C. Rowland, Executive Vice President and Chief Financial Officer, Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X

* Chesapeake agrees to furnish a copy of any of its unfiled long-term debt instruments to the Securities and Exchange Commission upon request.

† Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHESAPEAKE ENERGY CORPORATION

By /s/ AUBREY K. MCCLENDON
Aubrey K. McClendon
Chairman of the Board and
Chief Executive Officer

Date: February 29, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ AUBREY K. MCCLENDON **Aubrey K. McClendon**	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	February 29, 2008
/s/ MARCUS C. ROWLAND **Marcus C. Rowland**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 29, 2008
/s/ MICHAEL A. JOHNSON **Michael A. Johnson**	Senior Vice President—Accounting, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 29, 2008
/s/ RICHARD K. DAVIDSON **Richard K. Davidson**	Director	February 29, 2008
/s/ FRANK KEATING **Frank Keating**	Director	February 29, 2008
/s/ BREENE M. KERR **Breene M. Kerr**	Director	February 29, 2008
/s/ CHARLES T. MAXWELL **Charles T. Maxwell**	Director	February 29, 2008
/s/ MERRILL A. MILLER, JR **Merrill A. Miller, Jr.**	Director	February 29, 2008
/s/ DON NICKLES **Don Nickles**	Director	February 29, 2008
/s/ FREDERICK B. WHITTEMORE **Frederick B. Whittemore**	Director	February 29, 2008

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
3.1.1	Chesapeake's Restated Certificate of Incorporation, as amended.	10-Q	001-13726	3.1.1	08/09/2006	
3.1.2	Certificate of Designation for Series A Junior Participating Preferred Stock, as amended.	10-Q	001-13726	3.1.2	08/09/2006	
3.1.3	Certificate of Designation of 4.125% Cumulative Convertible Preferred Stock, as amended.	10-Q	001-13726	3.1.3	05/08/2007	
3.1.4	Certificate of Designation of 5% Cumulative Convertible Preferred Stock (Series 2005B).	8-K	001-13726	3.1	11/09/2005	
3.1.5	Certificate of Designation of 5% Cumulative Convertible Preferred Stock (Series 2005), as amended.					X
3.1.6	Certificate of Designation of 4.5% Cumulative Convertible Preferred Stock.	8-K	001-13726	3.1	09/15/2005	
3.1.7	Certificate of Designation of 6.25% Mandatory Convertible Preferred Stock, as amended.					X
3.2	Chesapeake's Amended and Restated Bylaws.	8-K	001-13726	3.1	06/13/2007	
4.1*	Indenture dated as of May 27, 2004 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors, and the Bank of New York Trust Company, N.A., as Trustee, with respect to 7.5% senior notes due 2014.	S-4	333-116555	4.1	06/17/2004	
4.2*	Indenture dated as of August 2, 2004 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors, and the Bank of New York Trust Company, N.A., as Trustee, with respect to 7.0% senior notes due 2014.	S-4	333-118378	4.1	08/20/2004	
4.3*	Indenture dated as of December 20, 2002 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to our 7.75% Senior Notes due 2015.	S-4	333-102445	4.5	01/10/2003	

Exhibit Number	Exhibit Description	Incorporated by Reference: Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
4.4*	Seventh Amended and Restated Credit Agreement, dated as of November 2, 2007, among Chesapeake Energy Corporation, as the Company, Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C., as Co-Borrowers, Union Bank of California, N.A., as Administrative Agent, The Royal Bank of Scotland, as Syndication Agent, and Bank of America, N.A., SunTrust Bank and BNP Paribas, as Co-Documentation Agents, and the several lenders from time to time parties thereto.	8-K	001-13726	4.1	11/08/2007	
4.4.1*	Consent & Waiver Letter dated December 12, 2007 with respect to the Seventh Amended and Restated Credit Agreement, dated as of November 2, 2007, among Chesapeake Energy Corporation, as the Company, Chesapeake Exploration, L.L.C. and Chesapeake Appalachia, L.L.C., as Co-Borrowers, Union Bank of California, N.A., as Administrative Agent, The Royal Bank of Scotland, as Syndication Agent, and Bank of America, N.A., SunTrust Bank and BNP Paribas, as Co-Documentation Agents, and the several lenders from time to time parties thereto.					X
4.5*	Indenture dated as of March 5, 2003 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 7.5% Senior Notes due 2013.	S-4	333-104396	4.7	04/09/2003	
4.6*	Indenture dated as of November 26, 2003 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.875% senior notes due 2016.	S-4/A	333-110668	4.2	12/01/2003	
4.7*	Indenture dated as of December 8, 2004 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A. Trust Company, N.A., as Trustee, with respect to 6.375% senior notes due 2015.	8-K	001-13726	4.1	12/14/2004	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	SEC File Number	Exhibit	Filing Date	
4.8*	Indenture dated as of April 19, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.625% senior notes due 2016.	10-Q	001-13726	4.12	05/10/2005	
4.9*	Indenture dated as of June 20, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.25% senior notes due 2018.	10-Q	001-13726	4.13	08/08/2005	
4.10*	Indenture dated as of August 16, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.50% senior notes due 2017.	8-K	001-13726	4.1	08/16/2005	
4.11*	Indenture dated as of November 8, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 6.875% senior notes due 2020.	8-K	001-13726	4.1.1	11/15/2005	
4.12*	Indenture dated as of November 8, 2005 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 2.75% contingent convertible senior notes due 2035.	8-K	001-13726	4.1.2	11/15/2005	
4.13*	Indenture dated as of June 30, 2006 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 7.625% senior notes due 2013.	8-K	001-13726	4.1	06/30/2006	
4.14*	Indenture dated as of December 6, 2006 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors, The Bank of New York Trust Company, N.A., as Trustee, AIB/BNY Fund Management (Ireland) Limited, as Irish Paying Agent and Transfer Agent, and The Bank of New York, London Branch, as Registrar, Transfer Agent and Paying Agent, with respect to 6.25% senior notes due 2017.	8-K	001-13726	4.1	12/06/2006	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
4.15*	Indenture dated as of May 15, 2007 among Chesapeake, as issuer, the subsidiaries signatory thereto, as Subsidiary Guarantors and The Bank of New York Trust Company, N.A., as Trustee, with respect to 2.50% contingent convertible senior notes due 2037.	8-K	001-13726	4.1	05/15/2007	
10.1.1†	Chesapeake's 2003 Stock Incentive Plan, as amended.	10-Q	001-13726	10.1.1	11/09/2007	
10.1.2†	Chesapeake's 1992 Nonstatutory Stock Option Plan, as amended.	10-Q	001-13726	10.1.2	02/14/1997	
10.1.3†	Chesapeake's 1994 Stock Option Plan, as amended.	10-Q	001-13726	10.1.3	11/07/2006	
10.1.4†	Chesapeake's 1996 Stock Option Plan, as amended.	10-Q	001-13726	10.1.4	11/07/2006	
10.1.5†	Chesapeake's 1999 Stock Option Plan, as amended.	10-Q	001-13726	10.1.5	11/07/2006	
10.1.6†	Chesapeake's 2000 Employee Stock Option Plan, as amended.	10-Q	001-13726	10.1.6	11/07/2006	
10.1.8†	Chesapeake's 2001 Stock Option Plan, as amended.	10-Q	001-13726	10.1.8	11/07/2006	
10.1.10†	Chesapeake's 2001 Nonqualified Stock Option Plan, as amended.	10-Q	001-13726	10.1.10	11/07/2006	
10.1.11†	Chesapeake's 2002 Stock Option Plan, as amended.	10-Q	001-13726	10.1.11	11/07/2006	
10.1.12†	Chesapeake's 2002 Non-Employee Director Stock Option Plan.	DEF14A	001-13726	B	04/29/2002	
10.1.13†	Chesapeake's 2002 Nonqualified Stock Option Plan, as amended.	10-Q	001-13726	10.1.13	11/07/2006	
10.1.14†	Chesapeake's 2003 Stock Award Plan for Non-Employee Directors, as amended.					X
10.1.15†	Chesapeake Energy Corporation 401(k) Make-Up Plan.	10-K	001-13726	10.1.15	02/27/2003	
10.1.16†	Chesapeake Energy Corporation Deferred Compensation Plan.	10-K	001-13726	10.1.16	02/27/2003	
10.1.16.1†	Chesapeake Energy Corporation Amended and Restated Deferred Compensation Plan.					X
10.1.18†	Chesapeake's Amended and Restated Long Term Incentive Plan.	10-Q	001-13726	10.1.18	11/09/2007	

Exhibit Number	Exhibit Description	Incorporated by Reference: Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
10.1.18.2†	Form of Restricted Stock Award Agreement for the Long Term Incentive Plan.	8-K	001-13726	10.1.18.2	06/16/2005	
10.1.18.3†	Form of Non-Employee Director Restricted Stock Award Agreement for the Long Term Incentive Plan.	8-K	001-13726	10.1.18.3	06/16/2005	
10.1.19†	Founder Well Participation Program.	DEF 14A	001-13726	B	04/29/2005	
10.2.1†	Employment Agreement dated as of January 1, 2008, between Aubrey K. McClendon and Chesapeake Energy Corporation.	8-K	001-13726	10.2.1	12/19/2007	
10.2.2†	Employment Agreement dated as of October 1, 2006 between Marcus C. Rowland and Chesapeake Energy Corporation.	8-K	001-13726	10.2.2	10/06/2006	
10.2.3†	Employment Agreement dated as of October 1, 2006 between Steven C. Dixon and Chesapeake Energy Corporation.	8-K	001-13726	10.2.3	10/06/2006	
10.2.4†	Employment Agreement dated as of October 1, 2006 between J. Mark Lester and Chesapeake Energy Corporation.	8-K	001-13726	10.2.4	10/06/2006	
10.2.5†	Employment Agreement dated as of January 1, 2007 between Douglas J. Jacobson and Chesapeake Energy Corporation.	10-K	001-13726	10.2.5	03/01/2007	
10.2.6†	Form of Employment Agreement between Senior Vice Presidents and Chesapeake Energy Corporation.					X
10.3†	Form of Indemnity Agreement for officers and directors of Chesapeake and its subsidiaries.					X
10.4†	Non-Employee Director Compensation.	10-Q	001-13726	10.4	08/09/2006	
10.5†	Named Executive Officer Compensation.					X
10.6	Rights Agreement dated July 15, 1998 between Chesapeake and UMB Bank, N.A., as Rights Agent.	8-A	001-13726	1	07/16/1998	
10.6.1	Amendment No. 1 dated September 11, 1998 to Rights Agreement dated July 15, 1998 between Chesapeake and UMB Bank, N.A., as Rights Agent.	10-Q	001-13726	10.3	11/16/1998	

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
10.6.2	Amendment No. 2 dated March 3, 2006 to Rights Agreement dated July 15, 1998 between Chesapeake and UMB Bank, N.A., as Rights Agent.	10-K	001-13726	10.6.1	03/14/2006	
12	Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Dividends.					X
21	Subsidiaries of Chesapeake					X
23.1	Consent of Pricewaterhouse Coopers, LLP					X
23.2	Consent of Netherland, Sewell & Associates, Inc.					X
23.3	Consent of Data & Consulting Services, Division of Schlumberger Technology Corporation					X
23.4	Consent of Lee Keeling and Associates, Inc.					X
23.5	Consent of Ryder Scott Company L.P.					X
23.6	Consent of LaRoche Petroleum Consultants, Ltd.					X
31.1	Aubrey K. McClendon, Chairman and Chief Executive Officer, Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Marcus C. Rowland, Executive Vice President and Chief Financial Officer, Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Aubrey K. McClendon, Chairman and Chief Executive Officer, Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X

CERTIFICATE OF DESIGNATION
OF
5.00% CUMULATIVE CONVERTIBLE PREFERRED STOCK (SERIES 2005)
OF
CHESAPEAKE ENERGY CORPORATION

Pursuant to Section 1032(G) of the Oklahoma General Corporation Act

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), does hereby certify that the following resolution was duly adopted by action of the Board of Directors of the Company, with the provisions thereof fixing the number of shares of the series and the dividend rate being set by action of the Board of Directors of the Company:

RESOLVED that pursuant to the authority expressly granted to and vested in the Board of Directors of the Company by the provisions of Article IV, Section 1 of the Certificate of Incorporation of the Company, as amended from time to time (the "Certificate of Incorporation"), and pursuant to Section 1032(G) of the Oklahoma General Corporation Act, the Board of Directors hereby creates a series of preferred stock of the Company and hereby states that the voting powers, designations, preferences and relative, participating, optional or other special rights of which, and qualifications, limitations or restrictions thereof (in addition to the provisions set forth in the Certificate of Incorporation which are applicable to the preferred stock of all classes and series), shall be as follows:

1. <u>Designation and Amount; Ranking</u>

(a) There shall be created from the 20,000,000 shares of preferred stock, par value $0.01 per share, of the Company authorized to be issued pursuant to the Certificate of Incorporation, a series of preferred stock, designated as the "5.00% Cumulative Convertible Preferred Stock (Series 2005)," par value $0.01 per share (the "Preferred Stock"), and the number of shares of such series shall be 4,600,000. Such number of shares may be decreased by resolution of the Board of Directors; <u>provided</u> that no decrease shall reduce the number of shares of Preferred Stock to a number less than that of the shares of Preferred Stock then outstanding plus the number of shares issuable upon exercise of options or rights then outstanding.

(b) The Preferred Stock will, with respect to both dividend rights and rights upon the liquidation, winding-up or dissolution of the Company, rank on a parity with the 6.00% Preferred Stock, the 5.00% Preferred Stock and the 4.125% Preferred Stock, and the Preferred Stock will, with respect to dividend rights or rights upon the liquidation, winding-up or dissolution of the Company rank (i) senior to all Junior Stock, (ii) on a parity with all other Parity Stock and (iii) junior to all Senior Stock.

2. <u>Definitions.</u> As used herein, the following terms shall have the following meanings:

(a) "4.125% Preferred Stock" shall mean the series of preferred stock, par value $0.01 per share, of the Company designated as the "4.125% Cumulative Convertible Preferred Stock."

(b) “5.00% Preferred Stock” shall mean the series of preferred stock, par value $0.01 per share, of the Company designated as the “5.00% Cumulative Convertible Preferred Stock.”

(c) “6.00% Preferred Stock” shall mean the series of preferred stock, par value $0.01 per share, of the Company designated as the “6.00% Cumulative Convertible Preferred Stock.”

(d) “Accrued Dividends” shall mean, with respect to any share of Preferred Stock, as of any date, the accrued and unpaid dividends on such share from and including the most recent Dividend Payment Date (or the Issue Date, if such date is prior to the first Dividend Payment Date) to but not including such date.

(e) “Accumulated Dividends” shall mean, with respect to any share of Preferred Stock, as of any date, the aggregate accumulated and unpaid dividends on such share from the Issue Date until the most recent Dividend Payment Date on or prior to such date. There shall be no Accumulated Dividends with respect to any share of Preferred Stock prior to the first Dividend Payment Date.

(f) “Affiliate” shall have the meaning ascribed to it, on the date hereof, under Rule 405 of the Securities Act of 1933, as amended.

(g) “Board of Directors” shall mean the Board of Directors of the Company or, with respect to any action to be taken by the Board of Directors, any committee of the Board of Directors duly authorized to take such action.

(h) “Business Day” shall mean any day other than a Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law or executive order to close.

(i) “Closing Sale Price” of the Common Stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the closing bid and ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices) on such date as reported on the principal United States securities exchange on which the Common Stock is traded or, if the Common Stock is not listed on a United States national or regional securities exchange, as reported by Nasdaq or by the National Quotation Bureau Incorporated. In the absence of such a quotation, the Closing Sale Price will be an amount determined in good faith by the Board of Directors to be the fair value of the Common Stock.

(j) “Common Stock” shall mean the common stock, par value $0.01 per share, of the Company, or any other class of stock resulting from successive changes or reclassifications of such common stock consisting solely of changes in par value, or from par value to no par value, or as a result of a subdivision, combination, merger, consolidation or similar transaction in which the Company is a constituent corporation.

(k) “Conversion Price” shall mean $25.766, subject to adjustment as set forth in Section 7(d).

(l) “DTC” or “Depository” shall mean The Depository Trust Company.

(m) “Dividend Payment Date” shall mean January 15, April 15, July 15 and October 15 of each year, commencing July 15, 2005.

(n) “Dividend Record Date” shall mean January 1, April 1, July 1 and October 1 of each year.

(o) “Effective Date” shall mean the date on which a Fundamental Change event occurs.

(p) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(q) “Fundamental Change” shall mean any of the following events: (i) the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of the Company’s assets (determined on a consolidated basis) to any Person or group (as such term is used in Section 13(d)(3) of the Exchange Act), other than to Permitted Holders; (ii) the adoption of a plan the consummation of which would result in the liquidation or dissolution of the Company; (iii) the acquisition, directly or indirectly, by any Person or group (as such term is used in Section 13(d)(3) of the Exchange Act) other than Permitted Holders of beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the aggregate voting power of the Voting Stock of the Company; provided, however, that the Permitted Holders beneficially own (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, in the aggregate a lesser percentage of the total voting power of the Voting Stock of the Company than such other Person or group and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors (for the purposes of this definition, such other Person or group shall be deemed to beneficially own any Voting Stock of a specified corporation held by a parent corporation, if such other Person or group is the beneficial owner (as defined above), directly or indirectly, of more than 35% of the voting power of the Voting Stock of such parent corporation and the Permitted Holders beneficially own (as defined in this proviso), directly or indirectly, in the aggregate a lesser percentage of the voting power of the Voting Stock of such parent corporation and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors of such parent corporation; (iv) during any period of two consecutive years, individuals who at the beginning of such period comprised the Board of Directors of the Company (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Company was approved by a vote of 66 2/3% of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Company then in office; or (v) the Common Stock ceases to be listed on a national securities exchange or quoted on Nasdaq or another over-the-counter market in the United States; provided, however, that a Fundamental Change will not be deemed to have occurred in the case of a merger or consolidation, if (i) at least 90% of the consideration (excluding cash payments for fractional shares and cash payments pursuant to dissenters’ appraisal rights) in the merger or consolidation consists of common stock of a United States company traded on a national securities exchange or quoted on Nasdaq (or which will be so traded or quoted when issued or exchanged in connection with such transaction) and (ii) as a result of such transaction or transactions the shares of Preferred Stock become convertible solely into such common stock.

(r) “Holder” or “holder” shall mean a holder of record of the Preferred Stock.

(s) “Issue Date” shall mean April 19, 2005, the original date of issuance of the Preferred Stock.

(t) “Junior Stock” shall mean all classes of common stock of the Company and the Series A Junior Participating Convertible Preferred Stock and each other class of capital stock or series of preferred stock established after the Issue Date, by the Board of Directors, the terms of which do not expressly provide that such class or series ranks senior to or on parity with the Preferred Stock as to dividend rights or rights upon the liquidation, winding-up or dissolution of the Company.

(u) “Liquidation Preference” shall mean, with respect to each share of Preferred Stock, $100.00.

(v) “Make-Whole Premium” shall have the meaning set forth in Section 4A.

(w) “Market Value” shall mean the average Closing Sale Price of the Common Stock for a five consecutive Trading Day period on the NYSE (or such other national securities exchange or automated quotation system on which the Common Stock is then listed or authorized for quotation or, if the Common Stock is not so listed or authorized for quotation, an amount determined in good faith by the Board of Directors to be the fair value of the Common Stock) ending immediately prior to the date of determination.

(x) “NYSE” shall mean the New York Stock Exchange, Inc.

(y) “Officer” shall mean the Chairman of the Board of Directors, the President, any Vice President, the Treasurer, the Secretary or any Assistant Secretary of the Company.

(z) “Officers’ Certificate” shall mean a certificate signed by two Officers.

(aa) “Opinion of Counsel” shall mean a written opinion from legal counsel who is acceptable to the Transfer Agent. The counsel may be an employee of or counsel to the Company or the Transfer Agent.

(bb) “Parity Stock” shall mean the 6.00% Preferred Stock, the 5.00% Preferred Stock, the 4.125% Preferred Stock and any class of capital stock or series of preferred stock established after the Issue Date by the Board of Directors, the terms of which expressly provide that such class or series will rank on parity with the Preferred Stock as to dividend rights or rights upon the liquidation, winding-up or dissolution of the Company.

(cc) “Permitted Holders” means Aubrey K. McClendon and Tom L. Ward and their respective Affiliates.

(dd) “Person” shall mean any individual, corporation, general partnership, limited partnership, limited liability partnership, joint venture, association, joint-stock company, trust, limited liability company, unincorporated organization or government or any agency or political subdivision thereof.

(ee) “Purchase Agreement” shall mean that certain Purchase Agreement with respect to the Preferred Stock, dated April 13, 2005, among the Company, Credit Suisse First Boston LLC, Banc of America Securities LLC, Bear, Stearns & Co. Inc., Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated and the other initial purchasers named therein.

(ff) “Registration Rights Agreement” means the Registration Rights Agreement to be dated April 19, 2005, among the Company, Credit Suisse First Boston LLC, Banc of America Securities LLC, Bear, Stearns & Co. Inc., Lehman Brothers Inc. and Morgan Stanley & Co. Incorporated and the other initial purchasers named in the Purchase Agreement, with respect to the Preferred Stock.

(gg) “SEC” or “Commission” shall mean the Securities and Exchange Commission.

(hh) “Securities Act” shall mean the Securities Act of 1933, as amended.

(ii) “Senior Stock” shall mean each class of capital stock or series of preferred stock established after the Issue Date by the Board of Directors, the terms of which expressly provide that such class or series will rank senior to the Preferred Stock as to dividend rights or rights upon the liquidation, winding-up or dissolution of the Company.

(jj) “Shelf Registration Statement” shall mean a shelf registration statement filed with the SEC to cover resales of Transfer Restricted Securities by holders thereof, as required by the Registration Rights Agreement.

(kk) “Trading Day” shall mean a day during which trading in securities generally occurs on the New York Stock Exchange or, if Common Stock is not listed on the New York Stock Exchange, on the principal other national or regional securities exchange on which Common Stock is then listed or, if Common Stock is not listed on a national or regional securities exchange, on Nasdaq or, if Common Stock is not quoted on Nasdaq, on the principal other market on which Common Stock is then traded.

(ll) “Transfer Agent” shall mean UMB Bank, N.A., the Company’s duly appointed transfer agent, registrar and conversion and dividend disbursing agent for the Preferred Stock. The Company may, in its sole discretion, remove the Transfer Agent with 10 days’ prior notice to the Transfer Agent; provided, that the Company shall appoint a successor Transfer Agent who shall accept such appointment prior to the effectiveness of such removal.

(mm) “Transfer Restricted Securities” shall mean each share of Preferred Stock (or the shares of Common Stock issued as a dividend on the Preferred Stock or into which such share of Preferred Stock is convertible) until (i) the date on which such security or its predecessor has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (ii) the date on which such security or predecessor is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

(nn) "Voting Rights Triggering Event" shall mean the failure of the Company to pay dividends on the Preferred Stock with respect to six or more quarterly periods (whether or not consecutive).

(oo) "Voting Stock" shall mean, with respect to any Person, securities of any class or classes of Capital Stock in such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of contingency) to vote in the election of members of the Board of Directors or other governing body of such Person. For purposes of this definition, "Capital Stock" shall mean, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of corporate stock or partnership interests and any and all warrants, options and rights with respect thereto (whether or not currently exercisable), including each class of common stock and preferred stock of such Person.

3. Dividends.

(a) The holders of shares of the outstanding Preferred Stock shall be entitled, when, as and if declared by the Board of Directors out of funds of the Company legally available therefor, to receive cumulative dividends at the rate per annum of 5.00% per share on the Liquidation Preference (equivalent to $5.00 per annum per share), payable quarterly in arrears (the "Dividend Rate"). The Dividend Rate may be increased in the circumstances described in Section 3(b) below. Dividends payable for each full dividend period will be computed by dividing the Dividend Rate by four and shall be payable in arrears on each Dividend Payment Date (commencing July 15, 2005) for the quarterly period ending immediately prior to such Dividend Payment Date, to the holders of record of Preferred Stock at the close of business on the Dividend Record Date applicable to such Dividend Payment Date. Such dividends shall be cumulative from the most recent date as to which dividends shall have been paid or, if no dividends have been paid, from the Issue Date (whether or not in any dividend period or periods there shall be funds of the Company legally available for the payment of such dividends) and shall accrue on a day-to-day basis, whether or not earned or declared, from and after the Issue Date. Dividends payable for any partial dividend period, including the initial dividend period ending immediately prior to July 15, 2005, shall be computed on the basis of days elapsed over a 360-day year consisting of twelve 30-day months. Accumulations of dividends on shares of Preferred Stock shall not bear interest.

(b) If (i) by August 17, 2005, the Shelf Registration Statement has not been filed with the Commission, (ii) by December 15, 2005, the Shelf Registration Statement has not been declared effective by the Commission or (iii) after the Shelf Registration Statement has been declared effective, (A) the Shelf Registration Statement thereafter ceases to be effective or (B) the Shelf Registration Statement or the related prospectus ceases to be usable (in each case, subject to the exceptions described below) in connection with resales of Transfer Restricted Securities during the period that any Transfer Restricted Securities (other than Transfer Restricted Securities held or beneficially owned by affiliates of the Company) remain outstanding (each such event referred to in clauses (i), (ii) and (iii), a "Registration Default"), additional dividends shall accrue on the Preferred Stock at the rate of ..50% per annum (resulting in a Dividend Rate of 5.50% per annum during the continuance of a Registration Default), from and including the date on which any such Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured. At all other times, dividends shall accumulate on the Preferred Stock at the Dividend Rate as described in Section 3(a).

A Registration Default referred to in clause (iii) of Section 3(b) shall be deemed not to have occurred and be continuing in relation to the Shelf Registration Statement or the related prospectus if (i) such Registration Default has occurred solely as a result of (x) the filing of a post-effective amendment to the Shelf Registration Statement to incorporate annual audited financial information with respect to the Company where such post-effective amendment is not yet effective and needs to be declared effective to permit Holders to use the related prospectus or (y) other material events, with respect to the Company that would need to be described in the Shelf Registration Statement or the related prospectus and (ii) in the case of clause (y), the Company is proceeding promptly and in good faith to amend or supplement such Shelf Registration Statement and related prospectus to describe such events; provided, however, that in any case if such Registration Default referred to in clause (iii) of Section 3(b) occurs for a continuous period in excess of 30 days, additional dividends as described in Section 3(b) shall be payable in accordance therewith from the day such Registration Default occurs until such Registration Default is cured.

(c) No dividend will be declared or paid upon, or any sum set apart for the payment of dividends upon, any outstanding share of the Preferred Stock with respect to any dividend period unless all dividends for all preceding dividend periods have been declared and paid or declared and a sufficient sum or number of shares of common stock have been set apart for the payment of such dividend, upon all outstanding shares of Preferred Stock.

(d) No dividend on the Preferred Stock will be paid in cash at any time that the Adjusted Consolidated EBITDA Coverage Ratio (as defined as of the date hereof in the indenture among the Company, the Subsidiary Guarantors (as defined therein) and The Bank of New York Trust Company, N.A. dated as of December 8, 2004) is less than 2.25 to 1.00.

(e) No dividends or other distributions (other than a dividend or distribution payable solely in shares of Parity Stock or Junior Stock (in the case of Parity Stock) or Junior Stock (in the case of Junior Stock) and other than cash paid in lieu of fractional shares) may be declared, made or paid, or set apart for payment upon, any Parity Stock or Junior Stock, nor may any Parity Stock or Junior Stock be redeemed, purchased or otherwise acquired for any consideration (or any money paid to or made available for a sinking fund for the redemption of any Parity Stock or Junior Stock) by or on behalf of the Company (except by conversion into or exchange for shares of Parity Stock or Junior Stock (in the case of Parity Stock) or Junior Stock (in the case of Junior Stock)), unless full Accumulated Dividends shall have been or contemporaneously are declared and paid, or are declared and a sum or number of shares of common stock sufficient for the payment thereof is set apart for such payment, on the Preferred Stock and any Parity Stock for all dividend payment periods terminating on or prior to the date of such declaration, payment, redemption, purchase or acquisition. Notwithstanding the foregoing, if full dividends have not been paid on the Preferred Stock and any Parity Stock, dividends may be declared and paid on the Preferred Stock and such Parity Stock so long as the dividends are declared and paid pro rata so that the amounts of dividends declared per share on the Preferred Stock and such Parity Stock will in all cases bear to each other the same ratio that accumulated and unpaid dividends per share on the shares of Preferred Stock and such other Parity Stock bear to each other.

(f) Holders of shares of Preferred Stock shall not be entitled to any dividends on the Preferred Stock, whether payable in cash, property or stock, in excess of full cumulative dividends. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Preferred Stock which may be in arrears.

(g) The holders of shares of Preferred Stock at the close of business on a Dividend Record Date will be entitled to receive the dividend payment on those shares on the next following Dividend Payment Date notwithstanding the subsequent conversion thereof or the Company's default in payment of the dividend due on that Dividend Payment Date. However, shares of Preferred Stock surrendered for conversion during the period between the close of business on any Dividend Record Date and the close of business on the Business Day immediately preceding the applicable Dividend Payment Date must be accompanied by payment of an amount or number of shares of Common Stock equal to the dividend payable on the shares on that Dividend Payment Date. A holder of shares of Preferred Stock on a Dividend Record Date who (or whose transferee) tenders any shares for conversion on the corresponding Dividend Payment Date will receive the dividend payable by the Company on the Preferred Stock on that date, and the converting holder need not include payment in the amount of such dividend upon surrender of shares of Preferred Stock for conversion. Except as provided above with respect to a voluntary conversion pursuant to Section 7, the Company shall make no payment or allowance for unpaid dividends, whether or not in arrears, on converted shares or for dividends on the shares of Common Stock issued upon conversion.

3A. Method of Payment of Dividends.

(a) Subject to the restrictions set forth herein, dividends on the Preferred Stock may be paid:

(i) in cash;

(ii) by delivery of shares of Common Stock; or

(iii) through any combination of cash and Common Stock.

(b) Common Stock issued in payment or partial payment of a dividend shall be valued for such purpose at 97% of the Market Value as determined on the second Trading Day immediately prior to the Dividend Record Date for such dividend.

(c) Dividend payments on the Preferred Stock will be made in cash, except to the extent the Company elects to make all or any portion of such payment in Common Stock by giving notice to Holders of such election and the portion of such payment that will be made in cash and the portion of such payment that will be made in Common Stock, 10 Trading Days prior to the Dividend Record Date for such dividend.

(d) No fractional shares of Common Stock will be delivered to Holders in payment or partial payment of a dividend. A cash adjustment will be paid to each Holder that would otherwise be entitled to a fraction of a share of Common Stock. Any portion of any such payment that is declared and not paid through the delivery of Common Stock will be paid in cash.

(e) No payment or partial payment of a dividend on the Preferred Stock may be made by delivery of Common Stock unless (i) the Common Stock to be delivered as payment therefore is freely transferable by the recipient without further action on its behalf or (ii) a Shelf Registration Statement relating to that Common Stock has been filed with the SEC and is effective to permit the resale of that Common Stock by the holders thereof.

4. <u>Fundamental Change</u>.

(a) Upon the occurrence of a Fundamental Change, each holder of Preferred Stock shall:

(i) if it converts its Preferred Stock at any time beginning at the opening of business on the Trading Day immediately following the Effective Date and ending at the close of business on the 30th Trading Day immediately following the Effective Date, receive:

(A) Common Stock and cash in lieu of fractional shares, as described in Section 7; and

(B) the Make-Whole Premium, if any, and

(ii) in the event that the Market Value for the period ending on the Effective Date is less than the Conversion Price, have a one-time option (the “Fundamental Change Option”) to convert all of such Holder’s outstanding shares of Preferred Stock into fully paid and nonassessable shares of Common Stock at an adjusted Conversion Price equal to the greater of (x) the Market Value for the period ending on the Effective Date and (y) $13.21. The Fundamental Change Option must be exercised, if at all, during the period of not less than 30 days nor more than 60 days after the Fundamental Change Notice Date. In lieu of issuing the shares of Common Stock issuable upon conversion in the event of a Fundamental Change, the Company may, at its option, make a cash payment equal to the Market Value for each share of such Common Stock otherwise issuable, determined for the period ending on the Effective Date.

(b) In the event of a Fundamental Change, notice of such Fundamental Change shall be given, within 10 Trading Days of the Effective Date, by the Company by first-class mail to each record holder of shares of Preferred Stock, at such holder’s address as the same appears on the books of the Company (such date of notice, the “Fundamental Change Notice Date”). Each such notice shall state (i) that a Fundamental Change has occurred; (ii) the last day on which the Make-Whole Premium can be received upon conversion and the last day on which the Fundamental Change Option may be exercised (each such date, an “Expiration Date”) pursuant to the terms hereof; (iii) the name and address of the Transfer Agent; and (iv) the procedures that holders must follow to exercise the Fundamental Change Option.

(c) On or before the applicable Expiration Date, each holder of shares of Preferred Stock wishing to exercise pursuant to Section 4(a) shall surrender the certificate or certificates representing the shares of Preferred Stock to be converted, in the manner and at the place designated in the notice described in Section 4(b), and on such date the cash or shares of Common Stock due to such holder shall be delivered to the Person whose name appears on such certificate or certificates as the owner thereof and the shares represented by each surrendered certificate shall be returned to authorized but unissued shares. Upon surrender (in accordance with the notice described in Section 4(b)) of the certificate or certificates representing any shares to be so converted (properly endorsed or assigned for transfer, if the Company shall so require and the notice shall so state), such shares shall be converted by the Company at the adjusted Conversion Price, if applicable, as described in Section 4(a).

(d) The rights of holders of Preferred Stock pursuant to this Section 4 are in addition to, and not in lieu of, the rights of holders of Preferred Stock provided for in Section 7 hereof and Section 4A.

4A. Determination of the Make-Whole Premium.

(a) If a Holder elects to convert Preferred Stock in connection with a transaction that is a Fundamental Change, the Company shall deliver to such Holder upon conversion, in addition to the shares of Common Stock and cash for fractional shares under Section 4 and Section 7, a make-whole premium (the "Make-Whole Premium"):

(i) equal to a percentage of the Liquidation Preference of the Preferred Stock converted determined by reference to the table in clause (d) below, based on the Effective Date and the price (the ''Stock Price'') paid, or deemed to be paid, per share of our Common Stock in the transaction constituting the Fundamental Change, subject to adjustment as described below; and

(ii) in addition to, and not in substitution for, any cash, securities or other assets otherwise due to holders of Preferred Stock upon conversion.

(b) The Make-Whole Premium will be paid solely in shares of Common Stock (other than cash in lieu of fractional shares) or in the same form of consideration into which all or substantially all of the Common Stock has been converted or exchanged in connection with the Fundamental Change (other than cash paid in lieu of fractional interests in any security or pursuant to dissenters' rights). The Company will pay cash in lieu of fractional interests in any security or other property delivered in connection with such Fundamental Change. The Make-Whole Premium will be payable on the 35th Trading Day following the Effective Date for Preferred Stock converted in connection with a Fundamental Change. If holders of Common Stock receive or have the right to receive more than one form of consideration in connection with such Fundamental Change, then, for purposes of the foregoing, the forms of consideration in which the Make-Whole Premium will be paid will be in proportion to the relative value, determined as described below, of the different forms of consideration paid to holders of Common Stock in connection with the Fundamental Change.

(c) The Stock Price paid, or deemed paid, per share of Common Stock in the transaction constituting the Fundamental Change will be calculated as follows:

(i) In the case of a Fundamental Change in which all or substantially all of the shares of Common Stock have been, as of the Effective Date, converted into or exchanged for the right to receive securities or other assets or property, the consideration shall be valued as follows:

(A) securities that are traded on a U.S. national securities exchange or approved for quotation on the Nasdaq or any similar system of automated dissemination of quotations of securities prices, will be valued at the average of the closing prices of such securities for the five consecutive Trading Days beginning on the second Trading Day after the Fundamental Change Notice Date,

(B) other securities, assets or property, other than cash, that holders will have the right to receive will be valued based on the average of the fair market value of the securities, assets or property, other than cash, as determined by two independent nationally recognized investment banks, and

(C) 100% of any cash.

(ii) In all other cases, the value of Common Stock will equal the average of the closing prices of Common Stock for the five consecutive Trading Days beginning on the second Trading Day after the Fundamental Change Notice Date.

The value of Common Stock or other consideration for purposes of determining the number of shares of Common Stock or other consideration to be issued in respect of the Make-Whole Premium will be calculated in the same manner, except that to the extent such value is calculated pursuant to clause (i)(A), (i)(B) or (ii), such value shall be multiplied by 97%.

(d) The following table sets forth the Stock Price paid, or deemed paid, per share of Common Stock in the transaction constituting the Fundamental Change, the Effective Date and Make-Whole Premium (expressed as a percentage of Liquidation Preference) upon a conversion in connection with a Fundamental Change:

Value as % of Liquidation Preference

	Effective Date						
	4/19/2005	**4/15/2006**	**4/15/2007**	**4/15/2008**	**4/15/2009**	**4/15/2010**	**Thereafter**
$19.82	0.0	0.0	0.0	0.0	0.0	0.0	0.0
$20.00	0.5	0.0	0.0	0.0	0.0	0.0	0.0
$22.00	6.1	5.0	4.0	3.2	2.8	2.8	2.8
$24.00	12.0	10.7	9.4	8.2	7.4	7.2	7.2
$26.00	17.2	15.7	14.2	12.6	11.3	10.8	10.8
$28.00	15.9	14.2	12.5	10.6	8.6	7.6	7.6
$30.00	14.7	13.0	11.1	8.9	6.4	4.3	4.3
$35.00	12.3	10.6	8.6	6.2	3.3	0.1	0.1
$40.00	10.5	8.9	7.1	4.8	2.1	0.0	0.0
$45.00	9.0	7.6	6.0	4.0	1.7	0.0	0.0

Value as % of Liquidation Preference

	Effective Date						
	4/19/2005	4/15/2006	4/15/2007	4/15/2008	4/15/2009	4/15/2010	Thereafter
$50.00	7.7	6.5	5.1	3.4	1.4	0.0	0.0
$55.00	6.5	5.5	4.3	2.9	1.2	0.0	0.0
$60.00	5.4	4.6	3.6	2.4	1.0	0.0	0.0
$65.00	4.3	3.7	2.9	2.0	0.8	0.0	0.0
$70.00	3.4	2.9	2.3	1.5	0.6	0.0	0.0
$75.00	2.5	2.1	1.7	1.1	0.4	0.0	0.0

The Stock Prices set forth in the table will be adjusted as of any date on which the Conversion Price of the Convertible Preferred Stock is adjusted. The adjusted Stock Prices will equal the stock prices applicable immediately prior to the adjustment divided by a fraction, the numerator of which is the Conversion Price immediately prior to the adjustment to the Conversion Price and the denominator of which is the conversion price as so adjusted.

The exact Stock Price and Effective Date may not be set forth on the table, in which case:

(i) if the Stock Price is between two Stock Prices on the table or the Effective Date is between two Effective Dates on the table, the Make-Whole Premium will be determined by straight-line interpolation between Make-Whole Premium amounts set forth for the higher and lower Stock Prices and the two Effective Dates, as applicable, based on a 365-day year;

(ii) if the Stock Price is in excess of $75 per share (subject to adjustment in the same manner as the Stock Price) the payment corresponding to row $75 will be paid; and

(iii) if the Stock Price is less than or equal to $19.82 per share (subject to adjustment in the same manner as the Stock Price), no Make-Whole Premium will be paid.

5. Voting.

(a) The shares of Preferred Stock shall have no voting rights except as set forth below or as otherwise required by Oklahoma law from time to time:

(i) If and whenever at any time or times a Voting Rights Triggering Event occurs, then the holders of shares of Preferred Stock, voting as a single class with any other preferred stock or preference securities having similar voting rights that are exercisable, including the 6.00% Preferred Stock, the 5.00% Preferred Stock and the 4.125% Preferred Stock (the “Voting Rights Class”), will be entitled at the next regular or special meeting of stockholders of the Company to elect two additional directors of the Company. Upon the election of any such additional directors, the number of directors that comprise the Board of Directors shall be increased by such number of additional directors.

(ii) Such voting rights may be exercised at a special meeting of the holders of the shares of the Voting Rights Class, called as hereinafter provided, or at any annual meeting of stockholders held for the purpose of electing directors, and thereafter at each such annual meeting until such time as all dividends in arrears on the shares of Preferred Stock shall have been paid in full, at which time or times such voting rights and the term of the directors elected pursuant to Section 5(a)(i) shall terminate.

(iii) At any time when such voting rights shall have vested in holders of shares of the Voting Rights Class, an Officer of the Company may call, and, upon written request of the record holders of shares representing at least twenty-five percent (25%) of the voting power of the shares then outstanding of the Voting Rights Class, addressed to the Secretary of the Company, shall call a special meeting of the holders of shares of the Voting Rights Class. Such meeting shall be held at the earliest practicable date upon the notice required for annual meetings of stockholders at the place for holding annual meetings of stockholders of the Company, or, if none, at a place designated by the Board of Directors. Notwithstanding the provisions of this Section 5(a)(iii), no such special meeting shall be called during a period within the 60 days immediately preceding the date fixed for the next annual meeting of stockholders in which such case, the election of directors pursuant to Section 5(a)(i) shall be held at such annual meeting of stockholders.

(iv) At any meeting held for the purpose of electing directors at which the holders of the Voting Rights Class shall have the right to elect directors as provided herein, the presence in person or by proxy of the holders of shares representing more than fifty percent (50%) in voting power of the then outstanding shares of the Voting Rights Class shall be required and shall be sufficient to constitute a quorum of such class for the election of directors by such class. The affirmative vote of the holders of shares of Preferred Stock constituting a majority of the shares of Preferred Stock present at such meeting, in person or by proxy, shall be sufficient to elect any such director.

(v) Any director elected pursuant to the voting rights created under this Section 5(a) shall hold office until the next annual meeting of stockholders (unless such term has previously terminated pursuant to Section 5(a)(ii)) and any vacancy in respect of any such director shall be filled only by vote of the remaining director so elected by holders of the Voting Rights Class, or if there be no such remaining director, by the holders of shares of the Voting Rights Class at a special meeting called in accordance with the procedures set forth in this Section 5, or, if no such special meeting is called, at the next annual meeting of stockholders. Upon any termination of such voting rights, the term of office of all directors elected pursuant to this Section 5 shall terminate.

(vi) So long as any shares of Preferred Stock remain outstanding, unless a greater percentage shall then be required by law, the Company shall not, without the affirmative vote or consent of the holders of at least 66 2/3% of the outstanding Preferred Stock voting or consenting, as the case may be, separately as one class, (i) create, authorize or issue any class or series of Senior Stock (or any security convertible into Senior Stock) or (ii) amend the Certificate of Incorporation so as to affect adversely the specified rights, preferences, privileges or voting rights of holders of shares of Preferred Stock.

(vii) In exercising the voting rights set forth in this Section 5(a), each share of Preferred Stock shall be entitled to one vote.

(b) The Company may authorize, increase the authorized amount of, or issue any class or series of Parity Stock or Junior Stock, without the consent of the holders of Preferred Stock, and in taking such actions the Company shall not be deemed to have affected adversely the rights, preferences, privileges or voting rights of holders of shares of Preferred Stock.

6. Liquidation Rights.

(a) In the event of any liquidation, winding-up or dissolution of the Company, whether voluntary or involuntary, each holder of shares of Preferred Stock shall be entitled to receive and to be paid out of the assets of the Company available for distribution to its stockholders the Liquidation Preference plus Accumulated Dividends and Accrued Dividends thereon in preference to the holders of, and before any payment or distribution is made on, any Junior Stock, including, without limitation, on any Common Stock.

(b) Neither the sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all the assets or business of the Company (other than in connection with the liquidation, winding-up or dissolution of its business) nor the merger or consolidation of the Company into or with any other Person shall be deemed to be a liquidation, winding-up or dissolution, voluntary or involuntary, for the purposes of this Section 6.

(c) After the payment to the holders of the shares of Preferred Stock of full preferential amounts provided for in this Section 6, the holders of Preferred Stock as such shall have no right or claim to any of the remaining assets of the Company.

(d) In the event the assets of the Company available for distribution to the holders of shares of Preferred Stock upon any liquidation, winding-up or dissolution of the Company, whether voluntary or involuntary, shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to Section 6(a), no such distribution shall be made on account of any shares of Parity Stock upon such liquidation, dissolution or winding-up unless proportionate distributable amounts shall be paid on account of the shares of Preferred Stock, ratably, in proportion to the full distributable amounts for which holders of all Preferred Stock and of any Parity Stock are entitled upon such liquidation, winding-up or dissolution.

7. Conversion.

(a) Each holder of Preferred Stock shall have the right, at any time, at its option, from the Issue Date to convert, subject to the terms and provisions of this Section 7, any or all of such holder’s shares of Preferred Stock. In such case, the shares of Preferred Stock shall be converted into such whole number of fully paid and nonassessable shares of Common Stock as is equal, subject to Section 7(h), to the product of the number of shares of Preferred Stock being so converted multiplied by the quotient of (i) the Liquidation Preference divided by (ii) the Conversion Price then in effect.

The conversion right of a holder of Preferred Stock shall be exercised by the holder by the surrender to the Company of the certificates representing shares to be converted at any time during usual business hours at its principal place of business or the offices of its duly appointed Transfer Agent to be maintained by it, accompanied by written notice to the Company in the form of Exhibit B that the holder elects to convert all or a portion of the shares of Preferred Stock represented by such certificate and specifying the name or names (with address) in which a certificate or certificates for shares of Common Stock are to be issued and (if so required by the Company or its duly appointed Transfer Agent) by a written instrument or instruments of transfer in form reasonably satisfactory to the Company or its duly appointed Transfer Agent duly executed by the holder or its duly authorized legal representative and transfer tax stamps or funds therefor, if required pursuant to Section 7(j). Immediately prior to the close of business on the date of receipt by the Company or its duly appointed Transfer Agent of notice of conversion of shares of Preferred Stock, each converting holder of Preferred Stock shall be deemed to be the holder of record of Common Stock issuable upon conversion of such holder's Preferred Stock notwithstanding that the share register of the Company shall then be closed or that certificates representing such Common Stock shall not then be actually delivered to such holder. On the date of any conversion, all rights with respect to the shares of Preferred Stock so converted, including the rights, if any, to receive notices, will terminate, except only the rights of holders thereof to (i) receive certificates for the number of whole shares of Common Stock into which such shares of Preferred Stock have been converted and cash, in lieu of any fractional shares as provided in Section 7(g); (ii) receive a Make-Whole Premium, if any, payable upon a Fundamental Change, in accordance with Section 4A; and (iii) exercise the rights to which they are entitled as holders of Common Stock.

(b) [Intentionally omitted].

(c) [Intentionally omitted].

(d) The Conversion Price shall be subject to adjustment as follows:

(i) In case the Company shall at any time or from time to time (A) pay a dividend (or other distribution) payable in shares of Common Stock on any class of capital stock (which, for purposes of this Section 7(d) shall include, without limitation, any dividends or distributions in the form of options, warrants or other rights to acquire capital stock) of the Company (other than the issuance of shares of Common Stock in connection with the conversion of, or payment or partial payment of dividends on, Preferred Stock); (B) subdivide the outstanding shares of Common Stock into a larger number of shares; (C) combine the outstanding shares of Common Stock into a smaller number of shares; (D) issue any shares of its capital stock in a reclassification of the Common Stock; or (E) pay a dividend or make a distribution to all holders of shares of Common Stock (other than a dividend or distribution subject to Section 7(d)(ii)) pursuant to a stockholder rights plan, "poison pill" or similar arrangement and excluding dividends payable on the Preferred Stock then, and in each such case, the Conversion Price in effect immediately prior to such event shall be adjusted (and any other appropriate actions shall be taken by the Company) so that the holder of any share of Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock that such holder would have owned or would have been entitled to receive upon or by reason of any of the events described above, had such share of Preferred Stock been converted into shares of Common Stock immediately prior to the occurrence of such event. An adjustment made pursuant to this Section 7(d)(i) shall become effective retroactively (x) in the case of any such dividend or distribution, to the day immediately following the close of business on the record date for the determination of holders of Common Stock entitled to receive such dividend or distribution or (y) in the case of any such subdivision, combination or reclassification, to the close of business on the day upon which such corporate action becomes effective.

(ii) In case the Company shall at any time or from time to time issue to all holders of its Common Stock rights, options or warrants entitling the holders thereof to subscribe for or purchase shares of Common Stock (or securities convertible into or exchangeable for shares of Common Stock) at a price per share less than the Market Value for the period ending on the date of issuance (treating the price per share of any security convertible or exchangeable or exercisable into Common Stock as equal to (A) the sum of the price paid to acquire such security convertible, exchangeable or exercisable into Common Stock plus any additional consideration payable (without regard to any anti-dilution adjustments) upon the conversion, exchange or exercise of such security into Common Stock divided by (B) the number of shares of Common Stock into which such convertible, exchangeable or exercisable security is initially convertible, exchangeable or exercisable), other than (i) issuances of such rights, options or warrants if the holder of Preferred Stock would be entitled to receive such rights, options or warrants upon conversion at any time of shares of Preferred Stock into Common Stock and (ii) issuances that are subject to certain triggering events (until such time as such triggering events occur), then, and in each such case, the Conversion Price then in effect shall be adjusted by dividing the Conversion Price in effect on the day immediately prior to the record date of such issuance by a fraction (y) the numerator of which shall be the sum of the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock issued or to be issued upon or as a result of the issuance of such rights, options or warrants (or the maximum number into or for which such convertible or exchangeable securities initially may convert or exchange or for which such options, warrants or other rights initially may be exercised) and (z) the denominator of which shall be the sum of the number of shares of Common Stock outstanding on such record date plus the number of shares of Common Stock which the aggregate consideration for the total number of such additional shares of Common Stock so issued (or into or for which such convertible or exchangeable securities may convert or exchange or for which such options, warrants or other rights may be exercised plus the aggregate amount of any additional consideration initially payable upon the conversion, exchange or exercise of such security) would purchase at the Market Value for the period ending on the date of conversion; provided, that if the Company distributes rights or warrants (other than those referred to above in this subparagraph (d)(ii)) pro rata to the holders of Common Stock, so long as such rights or warrants have not expired or been redeemed by the Company, (y) the holder of any Preferred Stock surrendered for conversion shall be entitled to receive upon such conversion, in addition to the shares of Common Stock then issuable upon such conversion (the “Conversion Shares”), a number of rights or warrants to be determined as follows: (i) if such conversion occurs on or prior to the date for the distribution to the holders of rights or warrants of separate certificates evidencing such rights or warrants (the “Distribution Date”), the same number of rights or warrants to which a holder of a number of shares of Common Stock equal to the number of Conversion Shares is entitled at the time of such conversion in accordance with the terms and provisions applicable to the rights or warrants and (ii) if such conversion occurs after the

Distribution Date, the same number of rights or warrants to which a holder of the number of shares of Common Stock into which such Preferred Stock was convertible immediately prior to such Distribution Date would have been entitled on such Distribution Date had such Preferred Stock been converted immediately prior to such Distribution Date in accordance with the terms and provisions applicable to the rights and warrants and (z) the Conversion Price shall not be subject to adjustment on account of any declaration, distribution or exercise of such rights or warrants.

(iii) If the Company shall at any time make a distribution, by dividend or otherwise, to all holders of shares of its Common Stock consisting exclusively of cash (excluding any cash portion of distributions referred to in clause (E) of paragraph (d)(i) above and cash distributed upon a merger or consolidation to which paragraph (h) below applies) in an amount per share of Common Stock that, when combined with the per share amounts of all other all-cash distributions to all holders of shares of its Common Stock made within the 90-day period ending on the record date for the distribution giving rise to an adjustment pursuant to this Section 7(d)(iii), exceeds $0.055 per share of Common Stock (the "Distribution Threshold Amount"), then the Conversion Price will be adjusted by multiplying:

(1) the Conversion Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of Common Stock entitled to receive such distribution by

(2) a fraction, the numerator of which will be the Market Value on the fourth trading day on the NYSE prior to such record date minus the amount of cash per share of Common Stock so distributed in excess of the Distribution Threshold Amount for which an adjustment has not otherwise been made pursuant to this Section 7(d)(iii) and the denominator of which will be the Market Value on the fourth trading day on the NYSE prior to such record date.

Subject to Section 7(e), such adjustment shall become effective immediately after the record date for the determination of holders of Common Stock entitled to receive the distribution giving rise to an adjustment pursuant to this Section 7(d)(iii). If an adjustment is required to be made under this clause 7(d) as a result of a cash dividend in any quarterly period that exceeds the Distribution Threshold Amount, the adjustment shall be based upon the amount by which the distribution exceeds the Distribution Threshold Amount. If an adjustment is otherwise required to be made under this clause 7(d), the adjustment shall be based upon the full amount of the distribution. The Distribution Threshold Amount is subject to adjustment under the same circumstances under which the Conversion Price is subject to adjustment pursuant to Section 7(d)(i) or Section 7(d)(ii). Notwithstanding the foregoing, in no event will the Conversion Price be less than $19.82, subject to adjustment under the same circumstances under which the Conversion Price is subject to adjustment pursuant to Section 7(d)(i), 7(d)(ii) and 7(d)(iv) and 7(d)(v).

(iv) If the Company shall at any time or from time to time on the record date of such distribution; (A) complete a tender or exchange offer by the Company or any of its subsidiaries for shares of Common Stock that involves an aggregate consideration that, together with (I) any cash and other consideration payable in a tender or exchange offer by the Company or any of its subsidiaries for shares of Common Stock expiring within the then-preceding 12 months in respect of which no adjustment pursuant to this Section 7(d) has been made and (II) the aggregate amount of any such all-cash distributions referred to in clause (iii) above to all holders of shares of Common Stock within the then-preceding 12 months in respect of which no adjustments have been made, exceeds 15% of the Company's market capitalization (defined as the product of the Market Value for the period ending on the record date of such distribution times the number of shares of Common Stock outstanding on such record date) on the expiration of such tender offer; or (B) make a distribution to all holders of its Common Stock consisting of evidences of indebtedness, shares of its capital stock other than Common Stock or assets (including securities, but excluding those dividends, rights, options, warrants and distributions referred to in paragraphs (d)(i), (d)(ii), (d)(iii) above or this (d)(iv)), then, and in each such case, the Conversion Price then in effect shall be adjusted by dividing the Conversion Price in effect immediately prior to the date of such distribution or completion of such tender or exchange offer, as the case may be, by a fraction (x) the numerator of which shall be the Market Value for the period ending on the record date referred to below, or, if such adjustment is made upon the completion of a tender or exchange offer, on the payment date for such offer, and (y) the denominator of which shall be such Market Value less the then fair market value (as determined by the Board of Directors of the Company) of the portion of the cash, evidences of indebtedness, securities or other assets so distributed or paid in such tender or exchange offer, applicable to one share of Common Stock (but such denominator shall not be less than one); provided, however, that no adjustment shall be made with respect to any distribution of rights to purchase securities of the Company if the holder of Preferred Stock would otherwise be entitled to receive such rights upon conversion at any time of shares of Preferred Stock into shares of Common Stock unless such rights are subsequently redeemed by the Company, in which case such redemption shall be treated for purposes of this Section 7(d)(iv) as a dividend on the Common Stock. Such adjustment shall be made whenever any such distribution is made or tender or exchange offer is completed, as the case may be, and shall become effective retroactively to a date immediately following the close of business on the record date for the determination of stockholders entitled to receive such distribution.

(v) In the case the Company at any time or from time to time shall take any action affecting its Common Stock (it being understood that the issuance or sale of shares of Common Stock (or securities convertible into or exchangeable for shares of Common Stock, or any options, warrants or other rights to acquire shares of Common Stock) to any Person at a price per share less than the Conversion Price then in effect shall not be deemed such an action), other than an action described in any of Section 7(d)(i) through Section 7(d)(iv), inclusive, or Section 7(h), or the issuance of shares of Common Stock as a dividend on Preferred Stock, then the Conversion Price shall be adjusted in such manner and at such time as the Board of Directors of the Company in good faith determines to be equitable in the circumstances (such determination to be evidenced in a resolution, a certified copy of which shall be mailed to the holders of the Preferred Stock).

(vi) Notwithstanding anything herein to the contrary, no adjustment under this Section 7(d) need be made to the Conversion Price unless such adjustment would require an increase or decrease of at least 1% of the Conversion Price then in effect. Any lesser adjustment shall be carried forward and shall be made at the time of and together with the next subsequent adjustment, if any, which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least 1% of such Conversion Price; provided, however, that with respect to adjustments to be made to the Conversion Price in connection with cash dividends paid by the Company, the Company shall make such adjustments, regardless of whether such aggregate adjustments amount to 1% or more of the Conversion Price, no later than April 15 of each calendar year.

(vii) The Company reserves the right to make such reductions in the Conversion Price in addition to those required in the foregoing provisions as it considers advisable in order that any event treated for Federal income tax purposes as a dividend of stock or stock rights will not be taxable to the recipients. In the event the Company elects to make such a reduction in the Conversion Price, the Company will comply with the requirements of Rule 14e-1 under the Exchange Act, and any other securities laws and regulations thereunder if and to the extent that such laws and regulations are applicable in connection with the reduction of the Conversion Price.

(e) If the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or other distribution, and shall thereafter (and before the dividend or distribution has been paid or delivered to stockholders) legally abandon its plan to pay or deliver such dividend or distribution, then thereafter no adjustment in the Conversion Price then in effect shall be required by reason of the taking of such record.

(f) Upon any increase or decrease in the Conversion Price, then, and in each such case, the Company promptly shall deliver to each holder of Preferred Stock a certificate signed by an authorized officer of the Company, setting forth in reasonable detail the event requiring the adjustment and the method by which such adjustment was calculated and specifying the increased or decreased Conversion Price then in effect following such adjustment.

(g) No fractional shares or securities representing fractional shares of Common Stock shall be issued upon the conversion of any shares of Preferred Stock, whether voluntary or mandatory, or in respect of the payment or partial payment of dividends on Preferred Stock in Common Stock. If more than one share of Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate Liquidation Preference of the shares of Preferred Stock so surrendered. If the conversion of any share or shares of Preferred Stock results in a fraction, an amount equal to such fraction multiplied by the last reported sale price of the Common Stock on the NYSE (or on such other national securities exchange or automated quotation system on which the Common Stock is then listed for trading or authorized for quotation or, if the Common Stock is not then so listed or authorized for quotation, an amount determined in good faith by the Board of Directors to be the fair value of the Common Stock) at the close of business on the Trading Day next preceding the day of conversion shall be paid to such holder in cash by the Company.

(h) In the event of any reclassification of outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value), or in the event of any consolidation or merger of the Company with or into another Person or any merger of another Person with or into the Company (other than a consolidation or merger in which the Company is the resulting or surviving Person and which does not result in any reclassification or change of outstanding Common Stock), or in the event of any sale or other disposition to another Person of all or substantially all of the assets of the Company (computed on a consolidated basis) (any of the foregoing, a "Transaction"), each share of Preferred Stock then outstanding shall, without the consent of any holder of Preferred Stock, become convertible at any time, at the option of the holder thereof, only into the kind and amount of securities (of the Company or another issuer), cash and other property receivable upon such Transaction by a holder of the number of shares of Common Stock into which such share of Preferred Stock could have been converted immediately prior to such Transaction, after giving effect to any adjustment event. The provisions of this Section 7(h) and any equivalent thereof in any such securities similarly shall apply to successive Transactions. The provisions of this Section 7(h), Section 4 and Section 4A shall be the sole rights of holders of Preferred Stock in connection with any Transaction and such holders shall have no separate vote thereon.

(i) The Company shall at all times reserve and keep available for issuance upon the conversion of the Preferred Stock such number of its authorized but unissued shares of Common Stock as will from time to time be sufficient to permit the conversion of all outstanding shares of Preferred Stock, and shall take all action required to increase the authorized number of shares of Common Stock if at any time there shall be insufficient unissued shares of Common Stock to permit such reservation or to permit the conversion of all outstanding shares of Preferred Stock or the payment or partial payment of dividends declared on Preferred Stock that are payable in Common Stock.

(j) The issuance or delivery of certificates for Common Stock upon the conversion of shares of Preferred Stock or the payment or partial payment of a dividend on Preferred Stock in Common Stock, shall be made without charge to the converting holder or recipient of shares of Preferred Stock for such certificates or for any tax in respect of the issuance or delivery of such certificates or the securities represented thereby, and such certificates shall be issued or delivered in the respective names of, or in such names as may be directed by, the holders of the shares of Preferred Stock converted; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificate in a name other than that of the holder of the shares of the relevant Preferred Stock and the Company shall not be required to issue or deliver such certificate unless or until the Person or Persons requesting the issuance or delivery thereof shall have paid to the Company the amount of such tax or shall have established to the reasonable satisfaction of the Company that such tax has been paid.

8. Mandatory Conversion.

(a) At any time on or after April 15, 2010, the Company shall have the right, at its option, to cause the Preferred Stock, in whole but not in part, to be automatically converted into that number of whole shares of Common Stock for each share of Preferred Stock equal to the quotient of (i) the Liquidation Preference divided by (ii) the Conversion Price then in effect, with any resulting fractional shares of Common Stock to be settled in accordance with Section 7(g). The Company may exercise its right to cause a mandatory conversion pursuant to this Section 8(a) only if the closing price of the Common Stock equals or exceeds 130% of the Conversion Price then in effect for at least 20 Trading Days in any consecutive 30 Trading Day period on the NYSE (or such other national securities exchange or automated quotation system on which the Common Stock is then listed or authorized for quotation), including the last Trading Day of such 30-day period, ending on the Trading Day prior to the Company's issuance of a press release announcing the mandatory conversion as described in Section 8(b).

(b) To exercise the mandatory conversion right described in Section 8(a), the Company must issue a press release for publication on the Dow Jones News Service prior to the opening of business on the first Trading Day following any date on which the conditions described in Section 8(a) are met, announcing such a mandatory conversion. The Company shall also give notice by mail or by publication (with subsequent prompt notice by mail) to the holders of Preferred Stock (not more than four Business Days after the date of the press release) of the mandatory conversion announcing the Company's intention to convert the Preferred Stock. The conversion date will be a date selected by the Company (the "Mandatory Conversion Date") and will be no more than ten days after the date on which the Company issues the press release described in this Section 8(b).

(c) In addition to any information required by applicable law or regulation, the press release and notice of a mandatory conversion described in Section 8(b) shall state, as appropriate: (i) the Mandatory Conversion Date; (ii) the number of shares of Common Stock to be issued upon conversion of each share of Preferred Stock; (iii) the number of shares of Preferred Stock to be converted; and (iv) that dividends on the Preferred Stock to be converted will cease to accrue on the Mandatory Conversion Date.

(d) On and after the Mandatory Conversion Date, dividends will cease to accrue on the Preferred Stock called for a mandatory conversion pursuant to Section 8(a) and all rights of holders of such Preferred Stock will terminate except for the right to receive the whole shares of Common Stock issuable upon conversion thereof and cash, in lieu of any fractional shares of Common Stock in accordance with Section 7(g). The dividend payment with respect to the Preferred Stock called for a mandatory conversion pursuant to Section 8(a) on a date during the period between the close of business on any Dividend Record Date to the close of business on the corresponding Dividend Payment Date will be payable on such Dividend Payment Date to the record holder of such share on such Dividend Record Date if such share has been converted after such Dividend Record Date and prior to such Dividend Payment Date. Except as provided in the immediately preceding sentence with respect to a mandatory conversion pursuant to Section 8(a), no payment or adjustment will be made upon conversion of Preferred Stock for Accrued Dividends or for dividends with respect to the Common Stock issued upon such conversion.

(e) The Company may not authorize, issue a press release or give notice of any mandatory conversion pursuant to Section 8(a) unless, prior to giving the conversion notice, all Accumulated Dividends on the Preferred Stock for periods ended prior to the date of such conversion notice shall have been paid.

(f) In addition to the mandatory conversion right described in Section 8(a), if there are less than 250,000 shares of Preferred Stock outstanding, the Company shall have the right, at any time on or after April 15, 2010, at its option, to cause the Preferred Stock to be automatically converted into that number of whole shares of Common Stock equal to the quotient of (i) the Liquidation Preference divided by (ii) the lesser of (A) the Conversion Price then in effect and (B) the Market Value for the period ending on the second Trading Day immediately prior to the Mandatory Conversion Date, with any resulting fractional shares of

Common Stock to be settled in cash in accordance with Section 7(g). The provisions of clauses (b), (c), (d) and (e) of this Section 8 shall apply to any mandatory conversion pursuant to this clause (f); provided that (i) the Mandatory Conversion Date described in Section 8(b) shall not be less than 15 days nor more than 30 days after the date on which the Company issues a press release pursuant to Section 8(b) announcing such mandatory conversion and (ii) the press release and notice of mandatory conversion described in Section 8(c) will not state the number of shares of Common Stock to be issued upon conversion of each share of Preferred Stock.

9. Consolidation, Merger and Sale of Assets.

(a) The Company, without the consent of the holders of any of the outstanding Preferred Stock, may consolidate with or merge into any other Person or convey, transfer or lease all or substantially all its assets to any Person or may permit any Person to consolidate with or merge into, or transfer or lease all or substantially all its properties to, the Company; provided, however, that (i) the successor, transferee or lessee is organized under the laws of the United States or any political subdivision thereof; (ii) the shares of Preferred Stock will become shares of such successor, transferee or lessee, having in respect of such successor, transferee or lessee the same powers, preferences and relative participating, optional or other special rights and the qualification, limitations or restrictions thereon, the Preferred Stock had immediately prior to such transaction; and (c) the Company delivers to the Transfer Agent an Officers' Certificate and an Opinion of Counsel stating that such transaction complies with this Certificate of Designation.

(b) Upon any consolidation by the Company with, or merger by the Company into, any other person or any conveyance, transfer or lease of all or substantially all the assets of the Company as described in Section 9(a), the successor resulting from such consolidation or into which the Company is merged or the transferee or lessee to which such conveyance, transfer or lease is made, will succeed to, and be substituted for, and may exercise every right and power of, the Company under the shares of Preferred Stock, and thereafter, except in the case of a lease, the predecessor (if still in existence) will be released from its obligations and covenants with respect to the Preferred Stock. Nothing in this Section 9 limits the rights of Holders set out in Section 4 and Section 4A.

10. SEC Reports.

Whether or not the Company is required to file reports with the Commission, if any shares of Preferred Stock are outstanding, the Company shall file with the Commission all such reports and other information as it would be required to file with the Commission by Section 13(a)or 15(d) under the Exchange Act. The Company shall supply each holder of Preferred Stock, upon request, without cost to such holder, copies of such reports or other information.

11. Certificates.

(a) *Form and Dating*. The Preferred Stock and the Transfer Agent's certificate of authentication shall be substantially in the form set forth in Exhibit A, which is hereby incorporated in and expressly made a part of this Certificate of Designation. The

Preferred Stock certificate may have notations, legends or endorsements required by law, stock exchange rules, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). Each Preferred Stock certificate shall be dated the date of its authentication. The terms of the Preferred Stock certificate set forth in Exhibit A are part of the terms of this Certificate of Designation.

(i) Global Preferred Stock. The Preferred Stock shall be issued initially in the form of one or more fully registered global certificates with the global securities legend and restricted securities legend set forth in Exhibit A hereto (the “Global Preferred Stock”), which shall be deposited on behalf of the purchasers represented thereby with the Transfer Agent, as custodian for DTC (or with such other custodian as DTC may direct), and registered in the name of DTC or a nominee of DTC, duly executed by the Company and authenticated by the Transfer Agent as hereinafter provided. The number of shares of Preferred Stock represented by Global Preferred Stock may from time to time be increased or decreased by adjustments made on the records of the Transfer Agent and DTC or its nominee as hereinafter provided. With respect to shares of Preferred Stock that are not “restricted securities” as defined in Rule 144 on a conversion date, all shares of Common Stock distributed on such conversion date or the payment or partial payment of a dividend in Common Stock will be freely transferable without restriction under the Securities Act (other than by affiliates), and such shares will be eligible for receipt in global form through the facilities of DTC.

(ii) Book-Entry Provisions. In the event Global Preferred Stock is deposited with or on behalf of DTC, the Company shall execute and the Transfer Agent shall authenticate and deliver initially one or more Global Preferred Stock certificates that (a) shall be registered in the name of DTC as depository for such Global Preferred Stock or the nominee of DTC and (b) shall be delivered by the Transfer Agent to DTC or pursuant to DTC’s instructions or held by the Transfer Agent as custodian for DTC.

Members of, or participants in, DTC (“Agent Members”) shall have no rights under this Certificate of Designation with respect to any Global Preferred Stock held on their behalf by DTC or by the Transfer Agent as the custodian of DTC or under such Global Preferred Stock, and DTC may be treated by the Company, the Transfer Agent and any agent of the Company or the Transfer Agent as the absolute owner of such Global Preferred Stock for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Transfer Agent or any agent of the Company or the Transfer Agent from giving effect to any written certification, proxy or other authorization furnished by DTC or impair, as between DTC and its Agent Members, the operation of customary practices of DTC governing the exercise of the rights of a holder of a beneficial interest in any Global Preferred Stock.

(iii) Certificated Preferred Stock; Certificated Common Stock. Except as provided in this paragraph 11(a) or in paragraph 11(c), owners of beneficial interests in Global Preferred Stock will not be entitled to receive physical delivery of Preferred Stock in fully registered certificated form (“Certificated Preferred Stock”). With respect to shares of Preferred Stock that are “restricted securities” as defined in Rule 144 on a conversion date, all shares of Common Stock issuable on conversion of such shares on such conversion date or on payment or partial payment of a dividend in Common Stock will be issued in fully registered certificated form ("Certificated Common Stock"). Certificates of Certificated Common Stock will be mailed or made available at the office of the Transfer Agent for the Preferred Stock on or as soon as reasonably practicable after the relevant conversion date to the converting holder.

After a transfer of any Preferred Stock or Certificated Common Stock during the period of the effectiveness of a Shelf Registration Statement with respect to such Preferred Stock or such Certificated Common Stock, all requirements pertaining to legends on such Preferred Stock (including Global Preferred Stock) or Certificated Common Stock will cease to apply, the requirements requiring that any such Certificated Common Stock issued to Holders be issued in certificated form, as the case may, will cease to apply, and Preferred Stock or Common Stock, as the case may be, in global or fully registered certificated form, in either case without legends, will be available to the transferee of the Holder of such Preferred Stock or Certificated Common Stock upon exchange of such transferring Holder's Preferred Stock or Common Stock or directions to transfer such Holder's interest in the Global Preferred Stock, as applicable.

(b) *Execution and Authentication*. Two Officers shall sign the Preferred Stock certificate for the Company by manual or facsimile signature.

If an Officer whose signature is on a Preferred Stock certificate no longer holds that office at the time the Transfer Agent authenticates the Preferred Stock certificate, the Preferred Stock certificate shall be valid nevertheless.

A Preferred Stock certificate shall not be valid until an authorized signatory of the Transfer Agent manually signs the certificate of authentication on the Preferred Stock certificate. The signature shall be conclusive evidence that the Preferred Stock certificate has been authenticated under this Certificate of Designation.

The Transfer Agent shall authenticate and deliver certificates for up to 4,600,000 shares of Preferred Stock for original issue upon a written order of the Company signed by two Officers or by an Officer and an Assistant Treasurer of the Company. Such order shall specify the number of shares of Preferred Stock to be authenticated and the date on which the original issue of Preferred Stock is to be authenticated.

The Transfer Agent may appoint an authenticating agent reasonably acceptable to the Company to authenticate the certificates for Preferred Stock. Unless limited by the terms of such appointment, an authenticating agent may authenticate certificates for Preferred Stock whenever the Transfer Agent may do so. Each reference in this Certificate of Designation to authentication by the Transfer Agent includes authentication by such agent. An authenticating agent has the same rights as the Transfer Agent or agent for service of notices and demands.

(c) *Transfer and Exchange*. (i) Transfer and Exchange of Certificated Preferred Stock. When Certificated Preferred Stock is presented to the Transfer Agent with a request to register the transfer of such Certificated Preferred Stock or to exchange such Certificated Preferred Stock for an equal number of shares of Certificated Preferred Stock, the Transfer Agent shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Certificated Preferred Stock surrendered for transfer or exchange:

(1) shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Transfer Agent, duly executed by the Holder thereof or its attorney duly authorized in writing; and

(2) is being transferred or exchanged pursuant to an effective registration statement under the Securities Act or pursuant to clause (i) or (ii) below, and is accompanied by the following additional information and documents, as applicable:

(A) if such Certificated Preferred Stock is being delivered to the Transfer Agent by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect in substantially the form of Exhibit C hereto; or

(B) if such Certificated Preferred Stock is being transferred to the Company or to a “qualified institutional buyer (”QIB”) in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act, (i) a certification to that effect (in substantially the form of Exhibit C hereto) and (ii) if the Company so requests, an Opinion of Counsel or other evidence reasonably satisfactory to it as to the compliance with the restrictions set forth in the legend set forth in paragraph 11(c) (vii).

(ii) Restrictions on Transfer of Certificated Preferred Stock for a Beneficial Interest in Global Preferred Stock. Certificated Preferred Stock may not be exchanged for a beneficial interest in Global Preferred Stock except upon satisfaction of the requirements set forth below. Upon receipt by the Transfer Agent of Certificated Preferred Stock, duly endorsed or accompanied by appropriate instruments of transfer, in form reasonably satisfactory to the Company and the Transfer Agent, together with written instructions directing the Transfer Agent to make, or to direct DTC to make, an adjustment on its books and records with respect to such Global Preferred Stock to reflect an increase in the number of shares of Preferred Stock represented by the Global Preferred Stock, then the Transfer Agent shall cancel such Certificated Preferred Stock and cause, or direct DTC to cause, in accordance with the standing instructions and procedures existing between DTC and the Transfer Agent, the number of shares of Preferred Stock represented by the Global Preferred Stock to be increased accordingly. If no Global Preferred Stock is then outstanding, the Company shall issue and the Transfer Agent shall authenticate, upon written order of the Company in the form of an Officers’ Certificate, a new Global Preferred Stock representing the appropriate number of shares.

(iii) Transfer and Exchange of Global Preferred Stock. The transfer and exchange of Global Preferred Stock or beneficial interests therein shall be effected through DTC, in accordance with this Certificate of Designation (including applicable restrictions on transfer set forth herein, if any) and the procedures of DTC therefor.

(iv) Transfer of a Beneficial Interest in Global Preferred Stock for a Certificated Preferred Stock.

(1) Any Person having a beneficial interest in Preferred Stock that is being transferred or exchanged pursuant to an effective registration statement under the Securities Act or pursuant to another exemption from registration thereunder may upon request, but only with the consent of the Company, and if accompanied by a certification from such Person to that effect (in substantially the form of Exhibit C hereto), exchange such beneficial interest for Certificated Preferred Stock representing the same number of shares of Preferred Stock. Upon receipt by the Transfer Agent of written instructions or such other form of instructions as is customary for DTC from DTC or its nominee on behalf of any Person having a beneficial interest in Global Preferred Stock and upon receipt by the Transfer Agent of a written order or such other form of instructions as is customary for DTC or the Person designated by DTC as having such a beneficial interest in a Transfer Restricted Security only, then, the Transfer Agent or DTC, at the direction of the Transfer Agent, will cause, in accordance with the standing instructions and procedures existing between DTC and the Transfer Agent, the number of shares of Preferred Stock represented by Global Preferred Stock to be reduced on its books and records and, following such reduction, the Company will execute and the Transfer Agent will authenticate and deliver to the transferee Certificated Preferred Stock.

(2) Certificated Preferred Stock issued in exchange for a beneficial interest in a Global Preferred Stock pursuant to this paragraph 11(c)(iv) shall be registered in such names and in such authorized denominations as DTC, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Transfer Agent. The Transfer Agent shall deliver such Certificated Preferred Stock to the Persons in whose names such Preferred Stock are so registered in accordance with the instructions of DTC.

(v) Restrictions on Transfer and Exchange of Global Preferred Stock.

(1) Notwithstanding any other provisions of this Certificate of Designation (other than the provisions set forth in paragraph 11(c)(vi)), Global Preferred Stock may not be transferred as a whole except by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor depository or a nominee of such successor depository.

(2) In the event that the Global Preferred Stock is exchanged for Preferred Stock in definitive registered form pursuant to paragraph 11(c)(vi) prior to the effectiveness of a Shelf Registration Statement with respect to such securities, such Preferred Stock may be exchanged only in accordance with such procedures as are substantially consistent with the provisions of this paragraph 11(c) (including the certification requirements set forth in the Exhibits to this Certificate of Designation intended to ensure that such transfers comply with Rule 144A or such other applicable exemption from registration under the Securities Act, as the case may be) and such other procedures as may from time to time be adopted by the Company.

(vi) Authentication of Certificated Preferred Stock. If at any time:

(1) DTC notifies the Company that DTC is unwilling or unable to continue as depository for the Global Preferred Stock and a successor depository for the Global Preferred Stock is not appointed by the Company within 90 days after delivery of such notice;

(2) DTC ceases to be a clearing agency registered under the Exchange Act and a successor depository for the Global Preferred Stock is not appointed by the Company within 90 days; or

(3) the Company, in its sole discretion, notifies the Transfer Agent in writing that it elects to cause the issuance of Certificated Preferred Stock under this Certificate of Designation,

then the Company will execute, and the Transfer Agent, upon receipt of a written order of the Company signed by two Officers or by an Officer and an Assistant Treasurer of the Company requesting the authentication and delivery of Certificated Preferred Stock to the Persons designated by the Company, will authenticate and deliver Certificated Preferred Stock equal to the number of shares of Preferred Stock represented by the Global Preferred Stock, in exchange for such Global Preferred Stock.

(vii) Legend.

(1) Except as permitted by the following paragraph (2) and in paragraph 11(a)(iii), each certificate evidencing the Global Preferred Stock, the Certificated Preferred Stock and Certificated Common Stock shall bear a legend in substantially the following form:

"THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY AND ANY SECURITY ISSUABLE UPON CONVERSION HEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY AND ANY SECURITY ISSUABLE UPON CONVERSION HEREOF MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS

OF RULE 144A, (II) OUTSIDE OF THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. IN ANY CASE, THE HOLDER HEREOF WILL NOT, DIRECTLY OR INDIRECTLY, ENGAGE IN ANY HEDGING TRANSACTION WITH REGARD TO THE SECURITIES EXCEPT AS PERMITTED UNDER THE SECURITIES ACT."[1]

(2) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by Global Preferred Stock) pursuant to Rule 144 under the Securities Act or another exemption from registration under the Securities Act or an effective registration statement under the Securities Act:

(A) in the case of any Transfer Restricted Security that is a Certificated Preferred Stock, the Transfer Agent shall permit the Holder thereof to exchange such Transfer Restricted Security for Certificated Preferred Stock that does not bear a restrictive legend and rescind any restriction on the transfer of such Transfer Restricted Security; and

(B) in the case of any Transfer Restricted Security that is represented by a Global Preferred Stock, with the consent of the Company, the Transfer Agent shall permit the Holder thereof to exchange such Transfer Restricted Security for Certificated Preferred Stock that does not bear the legend set forth above and rescind any restriction on the transfer of such Transfer Restricted Security, if the Holder's request for such exchange was made in reliance on Rule 144 or another exemption from registration under the Securities Act and the Holder certifies to that effect in writing to the Transfer Agent (such certification to be in the form set forth in Exhibit C hereto).

(viii) Cancelation or Adjustment of Global Preferred Stock. At such time as all beneficial interests in Global Preferred Stock have either been exchanged for Certificated Preferred Stock, converted or canceled, such Global Preferred Stock shall be returned to DTC for cancelation or retained and canceled by the Transfer Agent. At any time prior to such cancelation, if any

1 Subject to removal upon registration under the Securities Act of 1933 or otherwise when the security shall no longer be a Transfer Restricted Security.

beneficial interest in Global Preferred Stock is exchanged for Certificated Preferred Stock, converted or canceled, the number of shares of Preferred Stock represented by such Global Preferred Stock shall be reduced and an adjustment shall be made on the books and records of the Transfer Agent with respect to such Global Preferred Stock, by the Transfer Agent or DTC, to reflect such reduction.

(ix) Obligations with Respect to Transfers and Exchanges of Preferred Stock.

(1) To permit registrations of transfers and exchanges, the Company shall execute and the Transfer Agent shall authenticate Certificated Preferred Stock and Global Preferred Stock as required pursuant to the provisions of this paragraph 11(c).

(2) All Certificated Preferred Stock and Global Preferred Stock issued upon any registration of transfer or exchange of Certificated Preferred Stock or Global Preferred Stock shall be the valid obligations of the Company, entitled to the same benefits under this Certificate of Designation as the Certificated Preferred Stock or Global Preferred Stock surrendered upon such registration of transfer or exchange.

(3) Prior to due presentment for registration of transfer of any shares of Preferred Stock, the Transfer Agent and the Company may deem and treat the Person in whose name such shares of Preferred Stock are registered as the absolute owner of such Preferred Stock and neither the Transfer Agent nor the Company shall be affected by notice to the contrary.

(4) No service charge shall be made to a Holder for any registration of transfer or exchange upon surrender of any Preferred Stock certificate or Common Stock certificate at the office of the Transfer Agent maintained for that purpose. However, the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Preferred Stock certificates or Common Stock certificates.

(5) Upon any sale or transfer of shares of Preferred Stock (including any Preferred Stock represented by a Global Preferred Stock Certificate), Certificated Common Stock pursuant to an effective registration statement under the Securities Act or pursuant to Rule 144 or another exemption from registration under the Securities Act (and based upon an Opinion of Counsel reasonably satisfactory to the Company if it so requests) or the issue of Common Stock in payment or partial payment of a dividend on Preferred Stock pursuant to an effective registration statement:

(A) in the case of any Certificated Preferred Stock or Certificated Common Stock, the Company and the Transfer Agent shall permit the holder thereof to exchange such Preferred Stock or Certificated Common Stock for Certificated Preferred Stock or Certificated Common Stock, as the case may be, that does not bear a restrictive legend and rescind any restriction on the transfer of such Preferred Stock or Common Stock issuable in respect of the conversion of the Preferred Stock;

(B) in the case of any Common Stock issued in payment or partial payment of a dividend on Preferred Stock pursuant to an effective registration statement, the Certificated Common Stock issued in respect thereof shall not bear a restrictive legend; and

(C) in the case of any Global Preferred Stock, such Preferred Stock shall not be required to bear the legend set forth in paragraph (c)(vii) above but shall continue to be subject to the provisions of paragraph (c)(iv) hereof; provided, however, that with respect to any request for an exchange of Preferred Stock that is represented by Global Preferred Stock for Certificated Preferred Stock that does not bear the legend set forth in paragraph (c)(vii) above in connection with a sale or transfer thereof pursuant to Rule 144 or another exemption from registration under the Securities Act (and based upon an Opinion of Counsel if the Company so requests), the Holder thereof shall certify in writing to the Transfer Agent that such request is being made pursuant to such exemption (such certification to be substantially in the form of Exhibit C hereto).

(x) No Obligation of the Transfer Agent.

(1) The Transfer Agent shall have no responsibility or obligation to any beneficial owner of Global Preferred Stock, a member of, or a participant in DTC or any other Person with respect to the accuracy of the records of DTC or its nominee or of any participant or member thereof, with respect to any ownership interest in the Preferred Stock or with respect to the delivery to any participant, member, beneficial owner or other Person (other than DTC) of any notice or the payment of any amount, under or with respect to such Global Preferred Stock. All notices and communications to be given to the Holders and all payments to be made to Holders under the Preferred Stock shall be given or made only to the Holders (which shall be DTC or its nominee in the case of the Global Preferred Stock). The rights of beneficial owners in any Global Preferred Stock shall be exercised only through DTC subject to the applicable rules and procedures of DTC. The Transfer Agent may rely and shall be fully protected in relying upon information furnished by DTC with respect to its members, participants and any beneficial owners.

(2) The Transfer Agent shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Certificate of Designation or under applicable law with respect to any transfer of any interest in any Preferred Stock (including any transfers between or among DTC participants, members or beneficial owners in any Global Preferred Stock) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Certificate of Designation, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(d) *Replacement Certificates*. If a mutilated Preferred Stock certificate is surrendered to the Transfer Agent or if the Holder of a Preferred Stock certificate claims that the Preferred Stock certificate has been lost, destroyed or wrongfully taken, the Company shall issue and the Transfer Agent shall countersign a replacement Preferred Stock certificate if the reasonable requirements of the Transfer Agent and of Section 8-405 of the Uniform Commercial Code as in effect in the State of Oklahoma are met. If required by the Transfer Agent or the Company, such Holder shall furnish an indemnity bond sufficient in the judgment of the Company and the Transfer Agent to protect the Company and the Transfer Agent from any loss which either of them may suffer if a Preferred Stock certificate is replaced. The Company and the Transfer Agent may charge the Holder for their expenses in replacing a Preferred Stock certificate.

(e) *Temporary Certificates*. Until definitive Preferred Stock certificates are ready for delivery, the Company may prepare and the Transfer Agent shall countersign temporary Preferred Stock certificates. Temporary Preferred Stock certificates shall be substantially in the form of definitive Preferred Stock certificates but may have variations that the Company considers appropriate for temporary Preferred Stock certificates. Without unreasonable delay, the Company shall prepare and the Transfer Agent shall countersign definitive Preferred Stock certificates and deliver them in exchange for temporary Preferred Stock certificates.

(f) *Cancelation*. (i) In the event the Company shall purchase or otherwise acquire Certificated Preferred Stock, the same shall thereupon be delivered to the Transfer Agent for cancelation.

(ii) At such time as all beneficial interests in Global Preferred Stock have either been exchanged for Certificated Preferred Stock, converted, repurchased or canceled, such Global Preferred Stock shall thereupon be delivered to the Transfer Agent for cancelation.

(iii) The Transfer Agent and no one else shall cancel and destroy all Preferred Stock certificates surrendered for transfer, exchange, replacement or cancelation and deliver a certificate of such destruction to the Company unless the Company directs the Transfer Agent to deliver canceled Preferred Stock certificates to the Company. The Company may not issue new Preferred Stock certificates to replace Preferred Stock certificates to the extent they evidence Preferred Stock which the Company has purchased or otherwise acquired.

12. Additional Rights of Holders. In addition to the rights provided to Holders under this Certificate of Designation, Holders shall have the rights set forth in the Registration Rights Agreement.

13. Other Provisions.

(a) With respect to any notice to a holder of shares of Preferred Stock required to be provided hereunder, neither failure to mail such notice, nor any defect therein or in the mailing thereof, to any particular holder shall affect the sufficiency of the notice or the validity of the proceedings referred to in such notice with respect to the other holders or affect the legality or validity of any distribution, rights, warrant, reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding-up, or the vote upon any such action. Any notice which was mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the holder receives the notice.

(b) Shares of Preferred Stock issued and reacquired will be retired and canceled promptly after reacquisition thereof and, upon compliance with the applicable requirements of Oklahoma law, have the status of authorized but unissued shares of preferred stock of the Company undesignated as to series and may with any and all other authorized but unissued shares of preferred stock of the Company be designated or redesignated and issued or reissued, as the case may be, as part of any series of preferred stock of the Corporation, except that any issuance or reissuance of shares of Preferred Stock must be in compliance with this Certificate of Designation.

(c) The shares of Preferred Stock shall be issuable only in whole shares.

(d) All notice periods referred to herein shall commence on the date of the mailing of the applicable notice.

IN WITNESS WHEREOF, the Company has caused this certificate to be signed and attested this 18th day of April, 2005.

CHESAPEAKE ENERGY CORPORATION

By: /s/ MARTHA A. BURGER
Martha A. Burger
Senior Vice President and Treasurer

By: /s/ JENNIFER M. GRIGSBY
Jennifer M. Grigsby
Secretary

Attest: /s/ JENNIFER M. GRIGSBY
Jennifer M. Grigsby
Secretary

EXHIBIT A

FORM OF PREFERRED STOCK

FACE OF SECURITY

[THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY AND ANY SECURITY ISSUABLE UPON CONVERSION HEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY AND ANY SECURITY ISSUABLE UPON CONVERSION HEREOF MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE OF THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. IN ANY CASE, THE HOLDER HEREOF WILL NOT, DIRECTLY OR INDIRECTLY, ENGAGE IN ANY HEDGING TRANSACTION WITH REGARD TO THE SECURITIES EXCEPT AS PERMITTED UNDER THE SECURITIES ACT.][1]

[UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO., OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC) ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO. HAS AN INTEREST HEREIN.][2]

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[1] Subject to removal upon registration under the Securities Act of 1933 or otherwise when the security shall no longer be a Transfer Restricted Security.

[2] Subject to removal if not a global security.

[TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE CERTIFICATE OF DESIGNATION REFERRED TO BELOW.][2]

IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

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2 Subject to removal if not a global security.

Certificate Number	Number of Shares of Convertible Preferred Stock
[ ]	[ ]

CUSIP NO.: 165167867

5.00% Cumulative Convertible Preferred Stock (Series 2005) (par value $0.01)
(liquidation preference $100 per share of Convertible Preferred Stock)

of

Chesapeake Energy Corporation

Chesapeake Energy Corporation, an Oklahoma corporation (the “Company”), hereby certifies that [____________] (the “Holder”) is the registered owner of [____________] fully paid and non-assessable preferred securities of the Company designated the 5.00% Cumulative Convertible Preferred Stock (Series 2005) (par value $0.01) (liquidation preference $100 per share of Preferred Stock) (the “Preferred Stock”). The shares of Preferred Stock are transferable on the books and records of the Transfer Agent, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer. The designations, rights, privileges, restrictions, preferences and other terms and provisions of the Preferred Stock represented hereby are issued and shall in all respects be subject to the provisions of the Certificate of Designation dated April 18, 2005, as the same may be amended from time to time (the “Certificate of Designation”). Capitalized terms used herein but not defined shall have the meaning given them in the Certificate of Designation. The Company will provide a copy of the Certificate of Designation to a Holder without charge upon written request to the Company at its principal place of business.

Reference is hereby made to select provisions of the Preferred Stock set forth on the reverse hereof, and to the Certificate of Designation, which select provisions and the Certificate of Designation shall for all purposes have the same effect as if set forth at this place.

Upon receipt of this certificate, the Holder is bound by the Certificate of Designation and is entitled to the benefits thereunder.

Unless the Transfer Agent’s Certificate of Authentication hereon has been properly executed, these shares of Preferred Stock shall not be entitled to any benefit under the Certificate of Designation or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has executed this certificate this day of , .

CHESAPEAKE ENERGY CORPORATION

By: ____________________________
Name:
Title:

By: ____________________________
Name:
Title:

TRANSFER AGENT'S CERTIFICATE OF AUTHENTICATION

These are shares of the Preferred Stock referred to in the within-mentioned Certificate of Designation.

Dated:

UMB BANK, N.A., as Transfer Agent,

By: ______________________________

Authorized Signatory

REVERSE OF SECURITY

Dividends on each share of Preferred Stock shall be payable at a rate per annum set forth in the face hereof or as provided in the Certificate of Designation.

The shares of Preferred Stock shall be convertible into the Company's Common Stock in the manner and according to the terms set forth in the Certificate of Designation.

The Company will furnish without charge to each holder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock and the qualifications, limitations or restrictions of such preferences and/or rights.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers the shares of Preferred Stock evidenced hereby to: ____________________

____

____

____

(Insert assignee's social security or tax identification number)

____

____

____

(Insert address and zip code of assignee)

and irrevocably appoints: ____

____

____

____

agent to transfer the shares of Preferred Stock evidenced hereby on the books of the Transfer Agent. The agent may substitute another to act for him or her.

Date: ______________________________

Signature: ______________________________

(Sign exactly as your name appears on the other side of this Preferred Stock Certificate)

Signature Guarantee:[3] ______________________________

[3] (Signature must be guaranteed by an "eligible guarantor institution" that is a bank, stockbroker, savings and loan association or credit union meeting the requirements of the Transfer Agent, which requirements include membership or participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Transfer Agent in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.)

EXHIBIT B

NOTICE OF CONVERSION

(To be Executed by the Holder
in order to Convert the Preferred Stock)

The undersigned hereby irrevocably elects to convert (the “Conversion”) shares of 5.00% Cumulative Convertible Preferred Stock (Series 2005) (the “Preferred Stock”), represented by stock certificate No(s). (the “Preferred Stock Certificates”) into shares of common stock (“Common Stock”) of Chesapeake Energy Corporation (the “Company”) according to the conditions of the Certificate of Designation of the Preferred Stock (the “Certificate of Designation”), as of the date written below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith the Preferred Stock Certificates. No fee will be charged to the holder for any conversion, except for transfer taxes, if any. A copy of each Preferred Stock Certificate is attached hereto (or evidence of loss, theft or destruction thereof).

The undersigned represents and warrants that all offers and sales by the undersigned of the shares of Common Stock issuable to the undersigned upon conversion of the Preferred Stock shall be made pursuant to registration of the Common Stock under the Securities Act of 1933 (the “Act”), or pursuant to any exemption from registration under the Act.

Any holder, upon the exercise of its conversion rights in accordance with the terms of the Certificate of Designation and the Preferred Stock, agrees to be bound by the terms of the Registration Rights Agreement.

Capitalized terms used but not defined herein shall have the meanings ascribed thereto in or pursuant to the Certificate of Designation.

Date of Conversion:	______________________________
Applicable Conversion Price:	______________________________
Number of shares of Preferred Stock to be Converted:	______________________________
Number of shares of Common Stock to be Issued: *	______________________________
Signature:	______________________________
Name:	______________________________
Address:**	______________________________
Fax No.:	______________________________

* The Company is not required to issue shares of Common Stock until the original Preferred Stock Certificate(s) (or evidence of loss, theft or destruction thereof) to be converted are received by the Company or its Transfer Agent. The Company shall issue and deliver shares of Common Stock to an overnight courier not later than three business days following receipt of the original Preferred Stock Certificate(s) to be converted.

** Address where shares of Common Stock and any other payments or certificates shall be sent by the Company.

EXHIBIT C

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR
REGISTRATION OF TRANSFER OF PREFERRED STOCK

Re: 5.00% Cumulative Convertible Preferred Stock (Series 2005) (the "Preferred Stock") of Chesapeake Energy Corporation (the "Company")

This Certificate relates to ___________ shares of Preferred Stock held in ☐*/ book-entry or ☐*/ definitive form by ___________ (the "Transferor").

The Transferor*:

☐ has requested the Transfer Agent by written order to deliver in exchange for its beneficial interest in the Preferred Stock held by the Depository shares of Preferred Stock in definitive, registered form equal to its beneficial interest in such Preferred Stock (or the portion thereof indicated above); or

☐ has requested the Transfer Agent by written order to exchange or register the transfer of Preferred Stock.

In connection with such request and in respect of such Preferred Stock, the Transferor does hereby certify that the Transferor is familiar with the Certificate of Designation relating to the above-captioned Preferred Stock and that the transfer of this Preferred Stock does not require registration under the Securities Act of 1933 (the "Securities Act") because */:

☐ Such Preferred Stock is being acquired for the Transferor's own account without transfer.

☐ Such Preferred Stock is being transferred to the Company.

☐ Such Preferred Stock is being transferred to a qualified institutional buyer (as defined in Rule 144A under the Securities Act), in reliance on Rule 144A.

☐ Such Preferred Stock is being transferred in reliance on and in compliance with another exemption from the registration requirements of the Securities Act (and based on an Opinion of Counsel if the Company so requests).

____

by: ______________________________________

Date: ___________

*/ Please check applicable box.

CERTIFICATE OF ELIMINATION

Chesapeake Energy Corporation (the "Corporation"), a corporation organized and existing under the Oklahoma General Corporation Act,

DOES HEREBY CERTIFY:

FIRST: That the Corporation has acquired 4,535,880 shares of its 5.0% Cumulative Convertible Preferred Stock (Series 2005), par value $.01 per share (the "Acquired Shares").

SECOND: That the Board of Directors of the Corporation has adopted resolutions retiring the Acquired Shares.

THIRD: That the Certificate of Designation for the 5.0% Cumulative Convertible Preferred Stock (Series 2005) (the "Certificate of Designation") prohibits the reissuance of shares when so retired and, pursuant to the provisions of Section 1078 of the Oklahoma General Corporation Act, upon the date of the filing of this Certificate of Elimination, the Certificate of Designation shall be amended so as to reduce the number of authorized shares of the 5.0% Cumulative Convertible Preferred Stock (Series 2005) by 4,535,880 shares, being the total number of the Acquired Shares retired by the Board of Directors. Accordingly, the number of authorized but undesignated shares of preferred stock of the Company shall be increased by 4,535,880 shares. The retired Acquired Shares have a par value of $.01 per share and an aggregate par value of $45,358.80.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed by its Treasurer, Senior Vice President and Corporate Secretary, and attested to by its Assistant Secretary, this 27th day of November, 2007.

CHESAPEAKE ENERGY CORPORATION

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer, Senior Vice President and
Corporate Secretary

ATTEST:

/s/ Anita L. Brodrick
Anita L. Brodrick
Assistant Secretary

CERTIFICATE OF ELIMINATION

Chesapeake Energy Corporation (the "Corporation"), a corporation organized and existing under the Oklahoma General Corporation Act,

DOES HEREBY CERTIFY:

FIRST: That the Corporation has acquired 59,120 shares of its 5.0% Cumulative Convertible Preferred Stock (Series 2005), par value $.01 per share (the "Acquired Shares").

SECOND: That the Board of Directors of the Corporation has adopted resolutions retiring the Acquired Shares.

THIRD: That the Certificate of Designation for the 5.0% Cumulative Convertible Preferred Stock (Series 2005) (the "Certificate of Designation") prohibits the reissuance of shares when so retired and, pursuant to the provisions of Section 1078 of the Oklahoma General Corporation Act, upon the date of the filing of this Certificate of Elimination, the Certificate of Designation shall be amended so as to reduce the number of authorized shares of the 5.0% Cumulative Convertible Preferred Stock (Series 2005) by 59,120 shares, being the total number of the Acquired Shares retired by the Board of Directors. Accordingly, the number of authorized but undesignated shares of preferred stock of the Company shall be increased by 59,120 shares. The retired Acquired Shares have a par value of $.01 per share and an aggregate par value of $591.20.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed by its Treasurer, Senior Vice President and Corporate Secretary, and attested to by its Assistant Secretary, this 20th day of December, 2007.

CHESAPEAKE ENERGY CORPORATION

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer, Senior Vice President and
Corporate Secretary

ATTEST:

/s/ Anita L. Brodrick
Anita L. Brodrick
Assistant Secretary

Exhibit 3.1.7

CERTIFICATE OF DESIGNATION
OF
6.25% MANDATORY CONVERTIBLE PREFERRED STOCK
OF
CHESAPEAKE ENERGY CORPORATION

Pursuant to Section 1032(G) of the Oklahoma General Corporation Act

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "COMPANY"), does hereby certify that the following resolution was duly adopted by action of the Board of Directors of the Company, with the provisions thereof fixing the number of shares of the series and the dividend rate being set by action of the Board of Directors of the Company:

RESOLVED that pursuant to the authority expressly granted to and vested in the Board of Directors of the Company by the provisions of Article IV, Section 1 of the Certificate of Incorporation of the Company, as amended from time to time (the "CERTIFICATE OF INCORPORATION"), and pursuant to Section 1032(G) of the Oklahoma General Corporation Act, the Board of Directors hereby creates a series of preferred stock of the Company and hereby states that the voting powers, designations, preferences and relative, participating, optional or other special rights of which, and qualifications, limitations or restrictions thereof (in addition to the provisions set forth in the Certificate of Incorporation which are applicable to the preferred stock of all classes and series), shall be as follows:

(1) Designation and Amount. There shall be created from the 20,000,000 shares of preferred stock, par value $0.01 per share, of the Company authorized to be issued pursuant to the Certificate of Incorporation, a series of preferred stock, designated as the "6.25% Mandatory Convertible Preferred Stock," par value $0.01 per share (the "CONVERTIBLE PREFERRED STOCK"), and the number of shares of such series shall be 2,300,000. Such number of shares may be decreased by resolution of the Board of Directors; provided that no decrease shall reduce the number of shares of Convertible Preferred Stock to a number less than that of the shares of Convertible Preferred Stock then outstanding plus the number of shares issuable upon exercise of options or rights then outstanding.

(2) Ranking. The Convertible Preferred Stock will, with respect to both dividend rights and rights upon the liquidation, winding-up or dissolution of the Company, rank on a parity with the 5.00% Preferred Stock (Series 2003), the 4.125% Preferred Stock, the 5.00% Preferred Stock (Series 2005), the 4.50% Preferred Stock and the 5.00% Preferred Stock (Series 2005B) and the Convertible Preferred Stock will, with respect to dividend rights or rights upon the liquidation, winding-up or dissolution of the Company rank (i) senior to all Junior Stock, (ii) on a parity with all other Parity Stock and (iii) junior to all Senior Stock.

(3) Dividends. (a) The holders of shares of outstanding Convertible Preferred Stock shall be entitled, when, as and if declared by the Board of Directors out of funds of the Company legally available therefor, to receive cumulative dividends at the rate

per annum of 6.25% per share on the Liquidation Preference (equivalent to $15.6250 per annum per share), payable quarterly in arrears (the "DIVIDEND RATE"). Dividends payable for each full Dividend Period will be computed by dividing the Dividend Rate by four and shall be payable in arrears on each Dividend Payment Date (commencing September 15, 2006) for the Dividend Period ending immediately prior to such Dividend Payment Date, to the holders of record of Convertible Preferred Stock at the close of business on the Dividend Record Date applicable to such Dividend Payment Date. Such dividends shall be cumulative from the most recent date as to which dividends shall have been paid or, if no dividends have been paid, from the Issue Date (whether or not in any Dividend Period or periods there shall be funds of the Company legally available for the payment of such dividends) and shall accrue on a day-to-day basis, whether or not earned or declared, from and after the Issue Date. Dividends payable for any partial Dividend Period, including the initial Dividend Period ending immediately prior to September 15, 2006, shall be computed on the basis of days elapsed over a 360-day year consisting of twelve 30-day months. Accumulations of dividends on shares of Preferred Stock shall not bear interest. The initial dividend on the Convertible Preferred Stock for the first Dividend Period, commencing on the Issue Date (assuming an Issue Date of June 30, 2006), to but excluding September 15, 2006, will be $3.25521 per share, and when, as and if declared, will be payable when and if declared on September 15, 2006; provided that the Company is legally permitted to pay such dividends at such time. Each subsequent quarterly dividend on the Convertible Preferred Stock, when, as and if declared, will be $3.90625 per share, subject to adjustment as provided for in Section 20(c).

(b) No dividend will be declared or paid upon, or any sum set apart for the payment of dividends upon, any outstanding share of the Convertible Preferred Stock with respect to any Dividend Period unless all dividends for all preceding Dividend Periods have been declared and paid or declared and a sufficient sum or number of shares of common stock have been set apart for the payment of such dividend, upon all outstanding shares of Convertible Preferred Stock.

(c) Holders of shares of Convertible Preferred Stock shall not be entitled to any dividends on the Convertible Preferred Stock, whether payable in cash, property or stock, in excess of full cumulative dividends. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Convertible Preferred Stock which may be in arrears.

(3A) Method of Payment of Dividends. (a) Subject to the restrictions set forth herein, dividends on the Convertible Preferred Stock (including in connection with the payment of accrued, accumulated and unpaid dividends pursuant to Section 7, 8, 9 or 10) may be paid, as determined in the Company's sole discretion:

(i) in cash;

(ii) by delivery of shares of Common Stock; or

(iii) through any combination of cash and Common Stock.

(b) Common Stock issued in payment or partial payment of a dividend shall be valued for such purpose at 97% of the Current Market Price.

(c) Dividend payments on the Convertible Preferred Stock will be made in cash, except to the extent the Company elects to make all or any portion of such payment in Common Stock by giving notice to Holders of such election and the portion of such payment that will be made in cash and the portion of such payment that will be made in Common Stock, 10 Trading Days prior to the Dividend Record Date for such dividend.

(d) No fractional shares of Common Stock will be delivered to Holders in payment or partial payment of a dividend. A cash adjustment will be paid to each Holder that would otherwise be entitled to a fraction of a share of Common Stock. Any portion of any such payment that is declared and not paid through the delivery of Common Stock will be paid in cash.

(e) Notwithstanding the foregoing, in no event will the number of shares of Common Stock delivered in connection with any dividend payment made in connection with a conversion (other than a conversion pursuant to Section 9) exceed an amount equal to the total dividend payment divided by $10.00, subject to adjustment in the same manner as each Fixed Conversion Rate as set forth in Section 14 hereof.

(f) To the extent that the Company determines that a Shelf Registration Statement is required in connection with the issuance of, or for resales of, Common Stock issued as payment of a dividend, including dividends paid in connection with a conversion, the Company will use its reasonable best efforts to file and maintain the effectiveness of such a Shelf Registration Statement until such time as all sales of Common Stock have been resold thereunder.

(4) Payment Restrictions. (a) Unless all accrued, cumulated and unpaid dividends on the Convertible Preferred Stock for all prior Dividend Periods have been paid, the Company may not:

(i) declare or pay any dividend or make any distribution of assets on any Junior Stock, other than dividends or distributions in the form of Junior Stock and cash solely in lieu of fractional shares in connection with any such dividend or distribution;

(ii) redeem, purchase or otherwise acquire any shares of Junior Stock or pay or make any monies available for a sinking fund for such shares of Junior Stock, other than (A) upon conversion or exchange for other Junior Stock, (B) redemptions or purchases of any Series A Junior Participating Preferred Stock purchase rights or (C) the purchase of fractional interests in shares of any Junior Stock pursuant to the conversion or exchange provisions of such Junior Stock;

(iii) declare or pay any dividend or make any distribution of assets on any shares of Parity Stock, other than dividends or distributions in the form of Parity Stock or Junior Stock and cash solely in lieu of fractional shares in connection with any such dividend or distribution; or

(iv) redeem, purchase or otherwise acquire any shares of Parity Stock, except upon conversion into or exchange for other Parity Stock or Junior Stock and cash solely in lieu of fractional shares in connection with any such conversion or exchange; provided, however, that in the case of a redemption, purchase or other acquisition of Parity Stock upon conversion into or exchange for shares of other Parity Stock (A) the aggregate amount of the liquidation preference of such other Parity Stock does not exceed the aggregate amount of the liquidation preference, plus accrued, cumulated and unpaid dividends, of the shares of Parity Stock that are converted into or exchanged for such shares of other Parity Stock, (B) the aggregate number of shares of Common Stock issuable upon conversion, redemption or exchange of such other Parity Stock does not exceed the aggregate number of shares of Common Stock issuable upon conversion, redemption or exchange of the shares of Parity Stock that are converted into or exchanged for such shares of other Parity Stock and (C) such other shares of other Parity Stock contain terms and conditions (including, without limitation, with respect to the payment of dividends, dividend rates, liquidation preferences, voting and representation rights, payment restrictions, anti-dilution rights, change of control rights, covenants, remedies and conversion and redemption rights) that are not materially less favorable, taken as a whole, to the Company or the Holders of the Convertible Preferred Stock than those contained in the shares of Parity Stock that are converted or exchanged for such shares of other Parity Stock.

(5) Voting Rights. (a) The shares of Convertible Preferred Stock shall have no voting rights except as set forth below or as otherwise required by Oklahoma law from time to time:

(i) If and whenever at any time or times a Voting Rights Triggering Event occurs, then the holders of shares of Convertible Preferred Stock, voting as a single class with any other preferred stock or preference securities having similar voting rights that are exercisable, including the 5.00% Preferred Stock (Series 2003), the 4.125% Preferred Stock, the 5.00% Preferred Stock (Series 2005), the 4.50% Preferred Stock, and the 5.00% Preferred Stock (Series 2005B) (the “VOTING RIGHTS CLASS”), will be entitled at the next regular or special meeting of stockholders of the Company to elect two additional directors of the Company. Upon the election of any such additional directors, the number of directors that comprise the Board of Directors shall be increased by such number of additional directors.

(ii) Such voting rights may be exercised at a special meeting of the holders of the shares of the Voting Rights Class, called as hereinafter provided, or at any annual meeting of stockholders held for the purpose of electing directors, and thereafter at each such annual meeting until such time as all dividends in arrears on the shares of Convertible Preferred Stock shall have been paid in full, at which time or times such voting rights and the term of the directors elected pursuant to Section 5(a)(i) shall terminate.

(iii) At any time when such voting rights shall have vested in holders of shares of the Voting Rights Class, an Officer of the Company may call, and, upon written request of the record holders of shares representing at least twenty-five percent (25%) of the voting power of the shares then outstanding of the Voting Rights Class, addressed to the Secretary of the Company, shall call a special meeting of the holders of shares of the Voting Rights Class. Such meeting shall be held at the earliest practicable date upon the notice required for annual meetings of stockholders at the place for holding annual meetings of stockholders of the Company, or, if none, at a place designated by the Board of Directors. Notwithstanding the provisions of this Section 5(a)(iii), no such special meeting shall be called during a period within the 60 days immediately preceding the date fixed for the next annual meeting of stockholders in which such case, the election of directors pursuant to Section 5(a)(i) shall be held at such annual meeting of stockholders.

(iv) At any meeting held for the purpose of electing directors at which the holders of the Voting Rights Class shall have the right to elect directors as provided herein, the presence in person or by proxy of the holders of shares representing more than fifty percent (50%) in voting power of the then outstanding shares of the Voting Rights Class shall be required and shall be sufficient to constitute a quorum of such class for the election of directors by such class. The affirmative vote of the holders of shares of Convertible Preferred Stock constituting a majority of the shares of Convertible Preferred Stock present at such meeting, in person or by proxy, shall be sufficient to elect any such director.

(v) Any director elected pursuant to the voting rights created under this Section 5(a) shall hold office until the next annual meeting of stockholders (unless such term has previously terminated pursuant to Section 5(a)(ii)) and any vacancy in respect of any such director shall be filled only by vote of the remaining director so elected by holders of the Voting Rights Class, or if there be no such remaining director, by the holders of shares of the Voting Rights Class at a special meeting called in accordance with the procedures set forth in this Section 5, or, if no such special meeting is called, at the next annual meeting of stockholders. Upon any termination of such voting rights, the term of office of all directors elected pursuant to this Section 5 shall terminate.

(vi) So long as any shares of Convertible Preferred Stock remain outstanding, unless a greater percentage shall then be required by law, the Company shall not, without the affirmative vote or consent of the holders of at least 66 2/3% of the outstanding Convertible Preferred Stock voting or consenting, as the case may be, separately as one class, (i) create, authorize or issue any class or series of Senior Stock (or any security convertible into Senior Stock) or (ii) amend the Certificate of Incorporation so as to affect adversely the specified rights, preferences, privileges or voting rights of holders of shares of Convertible Preferred Stock.

(vii) In exercising the voting rights set forth in this Section 5(a), each share of Convertible Preferred Stock shall be entitled to one vote.

(b) The Company may authorize, increase the authorized amount of, or issue any class or series of Parity Stock or Junior Stock, without the consent of the holders of Convertible Preferred Stock, and in taking such actions the Company shall not be deemed to have affected adversely the rights, preferences, privileges or voting rights of holders of shares of Convertible Preferred Stock.

(6) Liquidation, Dissolution or Winding Up. (a) In the event of any liquidation, winding-up or dissolution of the Company, whether voluntary or involuntary, each Holder shall be entitled to receive and to be paid out of the assets of the Company available for distribution to its stockholders the Liquidation Preference plus all accrued, cumulated and unpaid dividends thereon in preference to the holders of, and before any payment or distribution is made on, any Junior Stock, including, without limitation, on any Common Stock.

(b) Neither the sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all the assets or business of the Company (other than in connection with the liquidation, winding-up or dissolution of its business) nor the merger or consolidation of the Company into or with any other Person shall be deemed to be a liquidation, winding-up or dissolution, voluntary or involuntary, for the purposes of this Section 6.

(c) After the payment to the holders of the shares of Convertible Preferred Stock of full preferential amounts provided for in this Section 6, the holders of Convertible Preferred Stock as such shall have no right or claim to any of the remaining assets of the Company.

(d) In the event the assets of the Company available for distribution to the holders of shares of Convertible Preferred Stock upon any liquidation, winding-up or dissolution of the Company, whether voluntary or involuntary, shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to Section 6(a), no such distribution shall be made on account of any shares of Parity Stock upon such liquidation, dissolution or winding-up unless proportionate distributable amounts shall be paid on account of the shares of Convertible Preferred Stock, ratably, in proportion to the full distributable amounts for which holders of all Convertible Preferred Stock and of any Parity Stock are entitled upon such liquidation, winding-up or dissolution.

(7) Mandatory Conversion on the Mandatory Conversion Date. (a) Each share of Convertible Preferred Stock will automatically convert (unless previously converted at the option of the Holder in accordance with Section 8 hereof, converted at the option of the Company pursuant to Section 9 hereof or pursuant to an exercise of a Cash Acquisition Conversion right pursuant to Section 10 hereof) on the Mandatory Conversion Date, into a number of shares of Common Stock equal to the Conversion Rate.

(b) The "CONVERSION RATE" shall be as follows:

(i) if the Applicable Market Value of the Common Stock is equal to or greater than $34.86 (the "THRESHOLD APPRECIATION PRICE"), then the Conversion Rate shall be equal to 7.1715 shares of Common Stock per share of Convertible Preferred Stock (the "MINIMUM CONVERSION RATE"), which is equal to $250.00 divided by the Threshold Appreciation Price);

(ii) if the Applicable Market Value of the Common Stock is less than the Threshold Appreciation Price but greater than $29.05 (the "INITIAL PRICE"), then the Conversion Rate shall be equal to $250.00 divided by the Applicable Market Value of the Common Stock;

(iii) if the Applicable Market Value of the Common Stock is less than or equal to the Initial Price, then the Conversion Rate shall be equal to 8.6059 shares of Common Stock per share of Convertible Preferred Stock (the "MAXIMUM CONVERSION RATE"), which is equal to $250.00 divided by the Initial Price; and

(iv) the Minimum Conversion Rate, the Maximum Conversion Rate, the Threshold Appreciation Price and the Initial Price are each subject to adjustment in accordance with the provisions of Section 14 hereof.

(c) The Holders of Convertible Preferred Stock on the Mandatory Conversion Date shall have the right to receive an amount equal to all accrued, cumulated and unpaid dividends on the Convertible Preferred Stock, whether or not declared prior to that date, for the then current Dividend Period until the Mandatory Conversion Date and all prior Dividend Periods (other than previously declared dividends on the Convertible Preferred Stock payable to Holders of record as of a prior date), provided that the Company is legally permitted to pay such dividends at such time.

(8) Early Conversion at the Option of the Holder. (a) Shares of the Convertible Preferred Stock are convertible, in whole or in part at the option of the Holder thereof ("EARLY CONVERSION") at any time prior to the Mandatory Conversion Date, into shares of Common Stock at the Minimum Conversion Rate, subject to adjustment as set forth in Section 14 hereof.

(b) Any written notice of conversion pursuant to this Section 8 shall be duly executed by the Holder, and specify:

(i) the number of shares of Convertible Preferred Stock to be converted;

(ii) the name(s) in which such Holder desires the shares of Common Stock issuable upon conversion to be registered and whether such shares of Common Stock are to be issued in book-entry or certificated form (subject to compliance with applicable legal requirements if any of such certificates are to be issued in a name other than the name of the Holder);

(iii) if certificates are to be issued, the address to which such Holder wishes delivery to be made of such new certificates to be issued upon such conversion; and

(iv) any other transfer forms, tax forms or other relevant documentation required and specified by the Transfer Agent, if necessary, to effect the conversion.

(c) If specified by the Holder in the notice of conversion that shares of Common Stock issuable upon conversion of the Convertible Preferred Stock shall be issued to a person other than the Holder surrendering the shares of Convertible Preferred Stock being converted, the Holder shall pay or cause to be paid any transfer or similar taxes payable in connection with the shares of Common Stock so issued.

(d) Upon receipt by the Transfer Agent of a completed and duly executed notice of conversion as set forth in Section 8(b), compliance with Section 8(c), if applicable, and upon surrender of a certificate representing share(s) of Convertible Preferred Stock to be converted (if held in certificated form), the Company shall, within three Business Days or as soon as possible thereafter, issue and shall instruct the Transfer Agent to register the number of shares of Common Stock to which such Holder shall be entitled upon conversion in the name(s) specified by such Holder in the notice of conversion. If a Holder elects to hold its shares of Common Stock issuable upon conversion of the Convertible Preferred Stock in certificated form, the Company shall promptly send or cause to be sent, by hand delivery (with receipt to be acknowledged) or by first-class mail, postage prepaid, to the Holder thereof, at the address designated by such Holder in the written notice of conversion, a certificate or certificates representing the number of shares of Common Stock to which such Holder shall be entitled upon conversion. In the event that there shall have been surrendered a certificate or certificates representing shares of Convertible Preferred Stock, only part of which are to be converted, the Company shall issue and deliver to such Holder or such Holder’s designee in the manner provided in the immediately preceding sentence a new certificate or certificates representing the number of shares of Convertible Preferred Stock that shall not have been converted.

(e) The issuance by the Company of shares of Common Stock upon a conversion of shares of Convertible Preferred Stock in accordance with the terms hereof shall be deemed effective immediately prior to the close of business on the day (the “EARLY CONVERSION DATE”) of receipt by the Transfer Agent of the notice of conversion and other documents, if any, set forth in Section 8(b) hereof, compliance with Section 8(c), if applicable, and the surrender by such Holder or such Holder’s designee of the certificate or certificates representing the shares of Convertible Preferred Stock to be converted (if held in certificated form), duly assigned or endorsed for transfer to the Company (or accompanied by duly executed stock powers relating thereto).

(f) A Holder of a share of Convertible Preferred Stock on the Early Conversion Date with respect to such share shall have the right to receive all accrued, cumulated and unpaid dividends, whether or not declared, for the portion of the then-current Dividend Period until the Early Conversion Date and all prior Dividend Periods (other than previously declared dividends on the Convertible Preferred Stock payable to Holders of record as of a prior date), provided that the Company is then legally permitted to pay such dividends. Except as described above, upon any optional conversion of the Convertible Preferred Stock, the Company will make no payment or allowance for unpaid dividends on the Convertible Preferred Stock.

(9) Provisional Conversion. (a) Prior to the Mandatory Conversion Date, if the Closing Price of the Common Stock has exceeded 150% of the Threshold Appreciation Price for at least 20 Trading Days within a period of 30 consecutive Trading Days ending on the Trading Day prior to the date (the "PROVISIONAL CONVERSION NOTICE DATE") on which the Company notifies the Holders (pursuant to clause (b) below) that it is exercising its option to cause the conversion of the Convertible Preferred Stock pursuant to this Section 9, the Company may, at its option, cause the conversion of all, but not less than all, the shares of Convertible Preferred Stock then outstanding into shares of Common Stock at the Minimum Conversion Rate for each share of Convertible Preferred Stock, subject to adjustment as set forth in Section 14. The Company shall be able to cause this conversion only if, in addition to issuing the Holders shares of Common Stock, the Company is then legally permitted to, and does, pay the Holders (i) an amount equal to any accrued, cumulated and unpaid dividends on the shares of Convertible Preferred Stock then outstanding, whether or not declared (other than previously declared dividends on the Convertible Preferred Stock payable to Holders of record as of a prior date), plus (ii) the present value of all remaining future dividend payments on the shares of Convertible Preferred Stock then outstanding through and including the Mandatory Conversion Date. The present value of the remaining future dividend payments will be computed using a discount rate equal to the Treasury Yield.

(b) A written notice (the "PROVISIONAL CONVERSION NOTICE") shall be sent by or on behalf of the Company, by first class mail, postage prepaid, to the Holders of record as they appear on the stock register of the Company on the Provisional Conversion Notice Date (i) notifying such Holders of the election of the Company to convert and of the Provisional Conversion Date, which date shall not be less than 30 days nor be more than 60 days after the Provisional Conversion Notice Date, and (ii) stating the Corporate Trust Office of the Transfer Agent at which the shares of Convertible Preferred Stock called for conversion shall, upon presentation and surrender of the certificate(s) (if such shares are held in certificated form) evidencing such shares, be converted, and the Minimum Conversion Rate to be applied thereto. The Company shall also issue a press release containing such information and publish such information on its website, provided that failure to issue such press release or publish such information on the Company's website shall not act to prevent or delay conversion pursuant to this Section 9.

(c) The Company shall deliver to the Transfer Agent irrevocable written instructions authorizing the Transfer Agent, on behalf and at the expense of the Company, to cause the Provisional Conversion Notice to be duly mailed as soon as practicable after receipt of such irrevocable instructions from the Company and in accordance with the above provisions. The shares of Common Stock to be issued upon conversion of the Convertible Preferred Stock pursuant to this Section 9 and all shares of Common Stock or funds necessary for the payment of the amounts specified in Section 9(a)(i) and (ii), shall be deposited with the Transfer Agent in trust at least one Business Day prior to the Provisional Conversion Date, for the pro rata benefit of the Holders of record as they appear on the stock register of the Company, so as to be and continue to be available therefor. Neither failure to mail such Provisional Conversion Notice to one or more such Holders nor any defect in such Provisional Conversion Notice shall affect the sufficiency of the proceedings for conversion as to other Holders.

(d) If a Provisional Conversion Notice shall have been given as hereinbefore provided, then each Holder shall be entitled to all preferences and relative, participating, optional and other special rights accorded by this Certificate of Designation until and including the Provisional Conversion Date. From and after the Provisional Conversion Date, upon delivery by the Company of the Common Stock and deposit of shares of Common Stock or funds with the Transfer Agent as described in paragraph (c) above, the Convertible Preferred Stock shall no longer be deemed to be outstanding, and all rights of such Holders shall cease and terminate, except the right of the Holders, upon surrender of certificates therefor, to receive Common Stock and any amounts to be paid hereunder.

(e) The deposit of shares of Common Stock or monies in trust with the Transfer Agent up to the amount necessary for the Provisional Conversion shall be irrevocable except that the Company shall be entitled to receive from the Transfer Agent the interest or other earnings, if any, earned on any shares of Common Stock or monies so deposited in trust, and the Holders of the shares converted shall have no claim to such interest or other earnings, and any balance of shares of Common Stock or monies so deposited by the Company and unclaimed by the Holders entitled thereto at the expiration of two years from the Provisional Conversion Date shall be repaid, together with any interest or other earnings thereon, to the Company, and after any such repayment, the Holders of the shares entitled to the shares of Common Stock or funds so repaid to the Company shall look only to the Company for such payment without interest.

(10) Cash Acquisition Conversion. (a) Subject to Section 10(h) below, in the event of a Cash Acquisition, the Holders of the Convertible Preferred Stock shall have the right to convert their shares of Convertible Preferred Stock during a period that begins on a date that is 15 days prior to the anticipated effective time of such acquisition and ending on a date that is 15 days after the actual effective date, which period must end prior to the Mandatory Conversion Date and the Provisional Conversion Notice Date (such right of the Holders to convert their shares pursuant to this Section 10(a) being the “CASH ACQUISITION CONVERSION”) at the Cash Acquisition Conversion Rate (as adjusted pursuant to the definition of “Cash Acquisition Conversion Rate” and Section 14).

(b) On or before the twentieth day prior to the date on which the Company anticipates consummating the Cash Acquisition, a written notice (the "CASH ACQUISITION CONVERSION NOTICE") shall be sent by or on behalf of the Company, by first-class mail, postage prepaid, to the Record Holders as they appear on the stock register of the Company. Such notice shall contain:

(i) the date on which the Cash Acquisition is anticipated to be effected;

(ii) whether Holders will have Cash Acquisition Conversion rights in connection with such Cash Acquisition, or whether the Company has made a Public Acquirer Election pursuant to Section 10(h) below;

(iii) if Holders have Cash Acquisition Conversion rights in connection with such Cash Acquisition, (A) the first date, which shall be 15 days prior to the anticipated effective time of such Cash Acquistion, on which the Cash Acquisition Conversion right may be exercised and (B) the date, which shall be 15 days after the actual effective date of the Cash Acquisition, by which the Cash Acquisition Conversion right must be exercised;

(iv) if Holders have Cash Acquisition Conversion rights in connection with such Cash Acquisition, the Cash Acquisition Conversion Rate applicable to such Cash Acquisition;

(v) if Holders have Cash Acquisition Conversion rights in connection with such Cash Acquisition, whether the Company will elect to pay any amount payable pursuant to Section 10(c) below in shares of Common Stock, cash or a combination cash and Common Stock; and

(vi) the instructions a Holder must follow to exercise the Cash Acquisition Conversion right, if any, in connection with such Cash Acquisition.

(c) Upon any conversion pursuant to Section 10(a), in addition to issuing the Holders shares of Common Stock at the Cash Acquisition Conversion Rate, the Company shall either,

(i) pay the Holders in cash (A) an amount equal to any accrued, cumulated and unpaid dividends on the shares of Convertible Preferred Stock then outstanding, whether or not declared (other than previously declared dividends on the Convertible Preferred Stock payable to Record Holders as of a prior date), plus (B) the present value of all remaining future dividend payments on the shares of Convertible Preferred Stock then outstanding through and including the Mandatory Conversion Date; provided that at such time the Company is then legally permitted to pay such dividends (the present value of the remaining future dividend payments will be computed using a discount rate equal to 8.50%), or

(ii) increase the number of shares of Common Stock issuable upon conversion of the Convertible Preferred Stock by an amount equal to (A) the amount set forth in clause (i) above, divided by (B) the average of the Closing Prices for each of the 10 consecutive Trading Days (appropriately adjusted to take into account the occurrence during such period of stock splits and similar events) ending on the effective date of the Cash Acquisition; provided, that, in no event shall the Company increase the number of shares of Common Stock to be issued in excess of the amount equal to the amount set forth in clause (i) above divided by $10.00, subject to adjustment in the same manner as each Fixed Conversion Rate as set forth in Section 14 hereof.

(d) To exercise a Cash Acquisition Conversion right, a Holder shall deliver to the Transfer Agent at its Corporate Trust Office, no earlier than 15 days prior to the anticipated effective date of the Cash Acquisition, and no later than 5:00 p.m., New York City time on or before the date by which the Cash Acquisition Conversion right must be exercised as specified in the notice, the certificate(s) (if such shares are held in certificated form) evidencing the shares of Convertible Preferred Stock with respect to which the Cash Acquisition Conversion right is being exercised, duly assigned or endorsed for transfer to the Company, or accompanied by duly executed stock powers relating thereto, or in blank, with a written notice to the Company stating the Holder's intention to convert early in connection with the Cash Acquisition containing the information set forth in Section 8(b) and providing the Company with payment instructions.

(e) If a Holder does not elect to exercise the Cash Acquisition Conversion right pursuant to this Section 10 in connection with a Reorganization Event, in lieu of shares of Common Stock, the Company shall deliver to such Holder on the Mandatory Conversion Date, the Provisional Conversion Date or an Early Conversion Date, such cash, securities and other property as determined in accordance with Section 14(e) hereof.

(f) Upon a Cash Acquisition Conversion, the Transfer Agent shall, in accordance with the instructions provided by the Holder thereof in the written notice provided to the Company as set forth above, deliver to the Holder such cash and securities issuable upon such Cash Acquisition Conversion, together with payment in lieu of any fraction of a share, as provided herein. Such delivery shall take place upon, and only to the extent of, the consummation of such Cash Acquisition Conversion.

(g) In the event that a Cash Acquisition Conversion is effected with respect to shares of Convertible Preferred Stock representing less than all the shares of Convertible Preferred Stock held by a Holder, upon such Cash Acquisition Conversion the Company shall execute and the Transfer Agent shall countersign and deliver to the Holder thereof, at the expense of the Company, a certificate evidencing the shares of Convertible Preferred Stock as to which Cash Acquisition Conversion was not effected.

(h) Public Acquirer Change of Control.

(i) Notwithstanding anything to the contrary in this Section 10, in the event of a Cash Acquisition that constitutes a Public Acquirer Change of Control, the Company may, by delivery of notice pursuant to Section 10(b), elect to cause the

Convertible Preferred Stock to be convertible into Acquirer Common Stock (the “PUBLIC ACQUIRER ELECTION”). If the Company makes a Public Acquirer Election, Holders will not have the Cash Acquisition Conversion rights set forth above.

(ii) In the event of a Public Acquirer Election, immediately after the effective date of such Public Acquirer Change of Control, each Fixed Conversion Rate shall equal the product of,

(A) such Fixed Conversion Rate in effect immediately prior to such effective date, multiplied by

(B) the average of the quotients obtained, for each Trading Day in the 10 consecutive Trading Day period commencing on the Trading Day next succeeding the effective date of such Public Acquirer Change of Control (the “VALUATION PERIOD”), by dividing,

(x) the Public Acquirer Acquisition Value on each such Trading Day in the Valuation Period, by

(y) the Closing Price of the Acquirer Common Stock on each such Trading Day in the Valuation Period.

(11) Conversion Procedures. (a) On the Mandatory Conversion Date, the Provisional Conversion Date, the Cash Acquisition Conversion Date or any Early Conversion Date (collectively, a “CONVERSION DATE”), dividends on any shares of Convertible Preferred Stock converted to Common Stock shall cease to accrue and cumulate, and such shares of Convertible Preferred Stock shall cease to be outstanding, in each case, subject to the right of Holders of such shares to receive shares of Common Stock into which such shares of Convertible Preferred Stock are convertible and any accrued, cumulated and unpaid dividends on such shares to which they are otherwise entitled pursuant to Section (7), (8), (9) or (10) hereof, as applicable.

(b) The person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder(s) of such shares of Common Stock as of the close of business on the applicable Conversion Date. No allowance or adjustment, except as set forth in Section 14, shall be made in respect of dividends payable to holders of Common Stock of record as of any date prior to such effective date. Prior to such effective date, shares of Common Stock issuable upon conversion of any shares of Convertible Preferred Stock shall not be deemed outstanding for any purpose, and Holders of shares of Convertible Preferred Stock shall have no rights with respect to the Common Stock (including voting rights, rights to respond to tender offers for the Common Stock and rights to receive any dividends or other distributions on the Common Stock) by virtue of holding shares of Convertible Preferred Stock.

(c) Shares of Convertible Preferred Stock duly converted in accordance with this Certificate of Designation, or otherwise reacquired by the Company, will resume the status of authorized and unissued Preferred Stock, undesignated as to series and available for future issuance.

(d) In the event that a Holder of shares of Convertible Preferred Stock shall not by written notice designate the name in which shares of Common Stock to be issued upon conversion of such shares should be registered or the address to which the certificate or certificates representing such shares should be sent, the Company shall be entitled to register such shares, and make such payment, in the name of the Holder of such Convertible Preferred Stock as shown on the records of the Company and to send the certificate or certificates representing such shares to the address of such Holder shown on the records of the Company.

(12) Reservation of Common Stock. (a) The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock or shares held in the treasury of the Company, solely for issuance upon the conversion of shares of Convertible Preferred Stock as herein provided, free from any preemptive or other similar rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Convertible Preferred Stock then outstanding. For purposes of this Section 12(a), the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of Convertible Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single Holder.

(b) Notwithstanding the foregoing, the Company shall be entitled to deliver upon conversion of shares of Convertible Preferred Stock, as herein provided, shares of Common Stock reacquired and held in the treasury of the Company (in lieu of the issuance of authorized and unissued shares of Common Stock), so long as any such treasury shares are free and clear of all liens, charges, security interests or encumbrances (other than liens, charges, security interests and other encumbrances created by the Holders).

(c) All shares of Common Stock delivered upon conversion of the Convertible Preferred Stock shall be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens, claims, security interests and other encumbrances (other than liens, charges, security interests and other encumbrances created by the Holders).

(d) Prior to the delivery of any securities that the Company shall be obligated to deliver upon conversion of the Convertible Preferred Stock, the Company shall use its reasonable best efforts to comply with all federal and state laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(e) The Company hereby covenants and agrees that, if at any time the Common Stock shall be listed on the New York Stock Exchange or any other national securities exchange or automated quotation system, the Company will, if permitted by the rules of such exchange or automated quotation system, list and keep listed, so long as the Common Stock shall be so listed on such exchange or automated quotation system, all Common Stock issuable upon conversion of the Convertible Preferred Stock; provided, however, that if the rules of such exchange or automated quotation system permit the Company to defer the listing of such Common Stock until the first conversion of Convertible Preferred Stock into Common Stock in accordance with the provisions hereof, the Company covenants to list such Common Stock issuable upon conversion of the Convertible Preferred Stock in accordance with the requirements of such exchange or automated quotation system at such time.

(13) Fractional Shares. (a) No fractional shares of Common Stock will be issued as a result of any conversion of shares of Convertible Preferred Stock.

(b) In lieu of any fractional share of Common Stock otherwise issuable in respect of any mandatory conversion pursuant to Section 7 hereof, any conversion at the option of the Company pursuant to Section 9 hereof or a conversion at the option of the holder pursuant to Section 8 or Section 10 hereof, the Company shall pay an amount in cash (computed to the nearest cent) equal to the same fraction of:

(i) in the case of a conversion pursuant to Section 7 or Section 9 hereof or a Cash Acquisition Conversion pursuant to Section 10, the Current Market Price; or

(ii) in the case of an Early Conversion pursuant to Section 8 hereof, the Closing Price of the Common Stock determined as of the second Trading Day immediately preceding the effective date of conversion.

(c) If more than one share of the Convertible Preferred Stock is surrendered for conversion at one time by or for the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of the Convertible Preferred Stock so surrendered.

(14) Anti-Dilution Adjustments to the Fixed Conversion Rates. (a) Each Fixed Conversion Rate and the number of shares of Common Stock to be delivered upon conversion shall be subject to the following adjustments.

(i) *Stock Dividends and Distributions*. In case the Company shall pay or make a dividend or other distribution on the Common Stock in shares of Common Stock, each Fixed Conversion Rate, as in effect at the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such dividend or other distribution, shall be increased by dividing such Fixed Conversion Rate by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares of Common Stock outstanding and the total number of shares of Common Stock constituting such dividend or other distribution, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this sub-section (i), the number of shares of Common Stock at the time outstanding shall not include shares held in the treasury of the Company but shall include any shares issuable in respect of any scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(ii) *Subdivisions, Splits and Combinations of the Common Stock*. In case outstanding shares of Common Stock shall be subdivided or split into a greater number of shares of Common Stock, each Fixed Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision or split becomes effective shall be proportionately increased, and, conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, such Fixed Conversion Rate in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately reduced, such increase or reduction, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision, split or combination becomes effective.

(iii) *Issuance of Stock Purchase Rights*. In case the Company shall issue rights or warrants to all holders of its Common Stock (other than rights or warrants issued pursuant to a dividend reinvestment plan or share purchase plan or other similar plans), entitling such holders, for a period of up to 45 days from the date of issuance of such rights or warrants, to subscribe for or purchase shares of Common Stock at a price per share less than the Current Market Price on the date fixed for the determination of shareholders entitled to receive such rights or warrants, each Fixed Conversion Rate in effect at the opening of business on the day following the date fixed for such determination shall be increased by multiplying such Fixed Conversion Rate by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase and the denominator of which shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such Current Market Price, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this clause (iii), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include any shares issuable in respect of any scrip certificates issued in lieu of fractions of shares of Common Stock. The Company shall not issue any such rights or warrants in respect of shares of Common Stock held in the treasury of the Company.

(iv) *Debt or Asset Distribution.* (A) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness, shares of capital stock, securities, cash or other assets (excluding any dividend or distribution referred to in Section 14(a)(i) or Section 14(a)(ii) hereof, any rights or warrants referred to in Section 14(a)(iii) hereof, any dividend or distribution paid exclusively in cash, any consideration payable in connection with a tender or exchange offer made by the Company or any subsidiary of the Company, and any dividend of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit in the case of a Spin-Off referred to in Section 14(a)(iv)(B) below), each Fixed Conversion Rate shall be adjusted so that it shall equal the rate determined by multiplying such Fixed Conversion Rate in effect immediately prior to the close of business on the date fixed for the determination of shareholders entitled to receive such distribution by a fraction, the numerator of which shall be the Current Market Price per share of the Common Stock on the date fixed for such determination and the denominator of which shall be such Current Market Price per share of the Common Stock less the then Fair Market Value of the portion of the evidences of indebtedness, shares of capital stock, securities, cash or other assets so distributed applicable to one share of Common Stock, such adjustment to become effective immediately prior to the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such distribution. In any case in which this clause (iv)(A) is applicable, clause (iv)(B) of this Section 14(a) shall not be applicable.

(B) In the case of a Spin-Off, each Fixed Conversion Rate in effect immediately before the close of business on the record date fixed for determination of shareholders entitled to receive that distribution will be increased by multiplying each Fixed Conversion Rate by a fraction, the numerator of which is the Current Market Price per share of the Common Stock plus the Fair Market Value of the portion of those shares of capital stock or similar equity interests so distributed applicable to one share of Common Stock and the denominator of which is the Current Market Price per share of the Common Stock. Any adjustment to the Conversion Rate under this clause (iv)(B) of this Section 14(a) will occur on the 15th Trading Day from, but excluding, the “ex-date” with respect to the Spin-Off.

(v) *Cash Distributions*. In case the Company shall distribute cash to all holders of the Common Stock immediately after the close of business on such date for determination, each Fixed Conversion Rate will be adjusted by multiplying such Fixed Conversion Rate in effect immediately prior to the close of business on the date fixed for determination of the shareholders of the Company entitled to receive such distribution by a fraction, the numerator of which will be the Current Market Price of the Common Stock on the date fixed for such determination and the denominator of which will be the Current Market Price of the Common Stock on the date fixed for such determination minus the amount per share of such dividend or distribution; provided, that no adjustment will be made to either Fixed Conversion Rate for (i) any cash that is distributed in a

Reorganization Event to which Section 14(e) applies or as part of a distribution referred to in paragraph (iv) of this Section 14(a), (ii) any dividend or distribution in connection with the liquidation, dissolution or winding up of the Company (iii) any consideration payable in connection with a tender or exchange offer made by the Company or any subsidiary of the Company or (iv) any cash dividends on the Common Stock to the extent that the aggregate cash dividend per share of Common Stock does not exceed $0.065 in any fiscal quarter (the "DIVIDEND THRESHOLD AMOUNT"). The Dividend Threshold Amount is subject to an inversely proportional adjustment whenever the Fixed Conversion Rates are adjusted, provided that no adjustment will be made to the Dividend Threshold Amount for any adjustment made to the Fixed Conversion Rates pursuant to this clause (v) or clause (iii), (iv), (vi) or (vii) of this Section 14(a).

If an adjustment is required to be made under this clause (v) as a result of a distribution that is a quarterly or annual dividend, the adjustment shall be based upon the amount by which the distribution exceeds the applicable Dividend Threshold Amount. If an adjustment is required to be made under this clause as a result of a distribution that is not a quarterly or annual dividend, the adjustment shall be based upon the full amount of such distribution.

(vi) *Self Tender Offers and Exchange Offers*. In case a tender or exchange offer made by the Company or any subsidiary of the Company for all or any portion of the Common Stock shall expire and such tender or exchange offer (as amended upon the expiration thereof) shall require the payment to shareholders (based on the acceptance, up to any maximum specified in the terms of the tender or exchange offer, of Purchased Shares (as defined below in this Section)) of an aggregate consideration per share of Common Stock having a Fair Market Value that, together with (a) any cash and other consideration payable in a tender or exchange offer by the Company or any subsidiary of the Company for shares of Common Stock expiring during the preceding 12-month period in respect of which no previous adjustments pursuant to this Section 14 have been made, plus (b) the aggregate amount of any cash distributions referred to in Section 14(a)(v) to holders of Common Stock during the preceding 12-month period in respect of which no previous adjustments have been made pursuant to this Section 14, exceeds 15% of the Company's market capitalization as of the expiration of such tender offer or exchange offer (the "EXPIRATION TIME"), then, and in each such case, immediately prior to the opening of business on the eighth Trading Day after the date of the Expiration Time, each Fixed Conversion Rate shall be adjusted so that the same shall equal the rate determined by dividing such Fixed Conversion Rate in effect immediately prior to the opening of business on the eighth Trading Day after the Expiration Time by a fraction (A) the numerator of which shall be equal to (x) the product of (I) the Current Market Price per share of the Common Stock on the seventh Trading Day after the Expiration Time and (II) the number of shares of Common Stock outstanding (including any shares validly tendered and not withdrawn) at the Expiration Time less (y) the amount of cash plus the Fair Market Value of the aggregate consideration payable to shareholders in the tender or exchange offer (assuming the acceptance, up to any maximum specified in the terms of the tender or exchange offer, of Purchased Shares), and (B) the denominator of which shall be equal to the product of (x) the Current Market Price per share of the Common Stock on the seventh Trading Day after the Expiration Time and (y) the number of shares of Common Stock outstanding (including any shares validly tendered and not withdrawn) as of the Expiration Time less the number of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "PURCHASED SHARES").

(vii) *Rights Plans*. To the extent that the Company has a rights plan in effect on any Conversion Date, upon conversion of any Convertible Preferred Stock, Holders shall receive, in addition to the Common Stock, the rights under such rights plan, unless, prior to such Conversion Date, the rights have separated from the Common Stock, in which case each Fixed Conversion Rate will be adjusted at the time of separation of such rights as if the Company made a distribution to all holders of the Common Stock as described in clause (iv) above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

(b) Adjustment for Tax Reasons. The Company may make such increases in each Fixed Conversion Rate, in addition to any other increases required by this Section 14, if the Board of Directors deems it advisable to avoid or diminish any income tax to holders of the Common Stock resulting from any dividend or distribution of shares (or issuance of rights or warrants to acquire shares) or from any event treated as such for income tax purposes or for any other reasons; provided that the same proportionate adjustment must be made to each Fixed Conversion Rate.

(c) Calculation of Adjustments; Adjustments to Threshold Appreciation Price, Initial Price and Cash Acquisition Stock Price. (i) All adjustments to the Conversion Rate shall be calculated to the nearest 1/10,000th of a share (or, if there is not a nearest 1/10,000th of a share, to the next lower 1/10,000th of a share) of Common Stock. Prior to the Mandatory Conversion Date, no adjustment in the Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least one percent therein; provided, that any adjustments which by reason of this subparagraph are not required to be made shall be carried forward and taken into account in any subsequent adjustment; provided, further that with respect to adjustments to be made to the Conversion Rate in connection with cash dividends paid by the Company, the Conversion Rate shall be adjusted regardless of whether such aggregate adjustments amount to one percent or more of the Conversion Rate no later than September 15 of each calendar year; provided, further that on the earlier of the Mandatory Conversion Date and the date on which the Company consummates a Cash Acquisition, adjustments to the Conversion Rate will be made with respect to any such adjustment carried forward and which has not been taken into account before such date. If an adjustment is made to the Conversion Rate pursuant to Sections 14(a)(i), 14(a)(ii), 14(a)(iii), 14(a)(iv), 14(a)(v) or 14(a)(vi), 14(b) or 10(h)(ii), an inversely proportional adjustment shall also be made to the Threshold Appreciation Price and the Initial Price solely for purposes of determining which of clauses (i), (ii) and (iii) of Section 7(b) will apply on the Conversion Date. Such adjustment shall be made by dividing each of the Threshold Appreciation Price and the Initial Price by a fraction, the numerator of which shall be the Conversion Rate immediately after such adjustment pursuant to Sections 14(a)(i), 14(a)(ii), 14(a)(iii), 14(a)(iv), 14(a)(v) or 14(a)(vi), 14(b) or 10(h)(ii) and the denominator of which shall be the Conversion Rate immediately before such adjustment; provided, that if such adjustment to the Conversion Rate is required to be made pursuant to the occurrence of any of the events contemplated by Sections 14(a)(i), 14(a)(ii), 14(a)(iii), 14(a)(iv), 14(a)(v) or 14(a)(vi), 14(b) or 10(h)(ii) during the period taken into consideration for determining the Applicable Market Value, appropriate and customary adjustments shall be made to the Conversion Rate.

(ii) If an adjustment is made to the Minimum Conversion Rate pursuant to Sections 14(a)(i), 14(a)(ii), 14(a)(iii), 14(a)(iv), 14(a)(v), 14(a)(vi), 14(b) or 10(h)(ii), a proportional adjustment shall be made to each Cash Acquisition Stock Price set forth in the table included in the definition of "Cash Acquisition Conversion Rate." Such adjustment shall be made by multiplying each Cash Acquisition Stock Price included in such table by a fraction, the numerator of which is the Minimum Conversion Rate immediately prior to such adjustment and the denominator of which is the Minimum Conversion Rate immediately after such adjustment.

(iii) No adjustment to the Conversion Rate need be made if Holders may participate in the transaction that would otherwise give rise to an adjustment, so long as the distributed assets or securities the Holders would receive upon conversion of the Convertible Preferred Stock, if convertible, exchangeable, or exercisable, are convertible, exchangeable or exercisable, as applicable, without any loss of rights or privileges for a period of at least 45 days following conversion of the Convertible Preferred Stock. The applicable Conversion Rate shall not be adjusted:

(A) upon the issuance of any shares of the Common Stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Company's securities and the investment of additional optional amounts in shares of Common Stock under any plan;

(B) upon the issuance of any shares of the Common Stock or rights or warrants to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Company or any of its subsidiaries;

(C) upon the issuance of any shares of the Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date shares of the Convertible Preferred Stock were first issued;

(D) for a change in the par value or no par value of the Common Stock; or

(E) for accrued, cumulated and unpaid dividends.

(iv) The Company shall have the power to resolve any ambiguity or correct any error in this Section 14 and its action in so doing, as evidenced by a resolution of the Board of Directors, or a duly authorized committee thereof, shall be final and conclusive.

(d) Notice of Adjustment. Whenever a Fixed Conversion Rate or the Cash Acquisition Conversion Rate, as applicable, is to be adjusted, the Company shall: (i) compute such adjusted Fixed Conversion Rate or the Cash Acquisition Conversion Rate, as applicable, and prepare and transmit to the Transfer Agent an Officer's Certificate setting forth such adjusted Fixed Conversion Rate or the Cash Acquisition Conversion Rate, as applicable, the method of calculation thereof in reasonable detail, and the facts requiring such adjustment and upon which such adjustment is based; (ii) as soon as practicable following the occurrence of an event that requires an adjustment to a Fixed Conversion Rate or the Cash Acquisition Conversion Rate, as applicable, (or if the Company is not aware of such occurrence, as soon as practicable after becoming so aware), provide, or cause to be provided, a written notice to the Holders of the Convertible Preferred Stock of the occurrence of such event; and (iii) as soon as practicable following the determination of a revised Fixed Conversion Rate or Cash Acquisition Conversion Rate, as applicable, a statement setting forth in reasonable detail the method by which the adjustment to such Fixed Conversion Rate or the Cash Acquisition Conversion Rate, as applicable, was determined and setting forth such revised Fixed Conversion Rate or Cash Acquisition Conversion Rate, as applicable.

(e) Reorganization Events. In the event of:

(i) any consolidation or merger of the Company with or into another Person (other than a merger or consolidation in which the Company is the continuing corporation and in which the Common Stock outstanding immediately prior to the merger or consolidation is not exchanged for cash, securities or other property of the Company or another Person);

(ii) any sale, transfer, lease or conveyance to another Person of all or substantially all of the property and assets of the Company;

(iii) any reclassification of Common Stock into securities including securities other than Common Stock; or

(iv) any statutory exchange of securities of the Company with another Person (other than in connection with a merger or acquisition) (any such event specified in this Section 14(e), a "REORGANIZATION EVENT");

each share of Convertible Preferred Stock outstanding immediately prior to such Reorganization Event shall, after such Reorganization Event, be convertible into the kind of securities, cash and other property receivable in such Reorganization Event (without any interest thereon and without any right to dividends or distribution thereon which have a record date that is prior to the Conversion Date) per share of Common Stock (the “EXCHANGE PROPERTY”) by a holder of Common Stock that (1) is not a person with which the Company consolidated or into which the Company merged or which merged into the Company or to which such sale or transfer was made, as the case may be (any such person, a “CONSTITUENT PERSON”), or an Affiliate of a Constituent Person to the extent such Reorganization Event provides for different treatment of Common Stock held by Affiliates of the Company and non-Affiliates, and (2) exercised his rights of election, if any, as to the kind or amount of securities, cash and other property receivable upon such Reorganization Event (provided that if the kind or amount of securities, cash and other property receivable upon such Reorganization Event is not the same for each share of Common Stock held immediately prior to such Reorganization Event by other than a Constituent Person or an Affiliate thereof and in respect of which such rights of election shall have been exercised (“ELECTING SHARE”), then, for the purpose of this Section 14(e) the kind and amount of securities, cash and other property receivable upon such Reorganization Event by each Electing Share shall be deemed to be the weighted average of the kinds and amounts so receivable per share by a plurality of the Electing Shares). The amount of Exchange Property receivable upon conversion of any Convertible Preferred Stock in accordance with Section 7, 8 or 9 hereof shall be determined based upon the Conversion Rate in effect on such Conversion Date. The applicable Conversion Rate shall be (x) the Minimum Conversion Rate, in the case of an Early Conversion Date or a Provisional Conversion Date, and (y) determined based upon the definition of Conversion Rate set forth in Section 7 and the Applicable Market Value at such time, in the case of the Mandatory Conversion Date.

For purposes of this Section 14(e), “APPLICABLE MARKET VALUE” shall be deemed to refer to the Applicable Market Value of the Exchange Property and such value shall be determined (A) with respect to any publicly traded securities that compose all or part of the Exchange Property, based on the Closing Price of such securities, (B) in the case of any cash that composes all or part of the Exchange Property, based on the amount of such cash and (C) in the case of any other property that composes all or part of the Exchange Property, based on the value of such property, as determined by a nationally recognized independent investment banking firm retained by the Company for this purpose. For purposes of this Section 14(e), the term “CLOSING PRICE” shall be deemed to refer to the closing sale price, last quoted bid price or mid-point of the last bid and ask prices, as the case may be, of any publicly traded securities that comprise all or part of the Exchange Property. For purposes of this Section 14(e), references to Common Stock in the definition of “TRADING DAY” shall be replaced by references to any publicly traded securities that comprise all or part of the Exchange Property.

The above provisions of this Section 14(e) shall similarly apply to successive Reorganization Events and the provisions of Section 14 shall apply to any shares of capital stock of the Company (or any successor) received by the holders of Common Stock in any such Reorganization Event.

The Company (or any successor) shall, within 20 days of the occurrence of any Reorganization Event, provide written notice to the Holders of such occurrence of such event and of the kind and amount of the cash, securities or other property that constitutes the Exchange Property. Failure to deliver such notice shall not affect the operation of this Section 14(e).

(15) Replacement Stock Certificates. (a) If physical certificates are issued, and any of the Convertible Preferred Stock certificates shall be mutilated, lost, stolen or destroyed, the Company shall, at the expense of the Holder, issue, in exchange and in substitution for and upon cancellation of the mutilated Convertible Preferred Stock certificate, or in lieu of and substitution for the Convertible Preferred Stock certificate lost, stolen or destroyed, a new Convertible Preferred Stock certificate of like tenor and representing an equivalent amount of shares of Convertible Preferred Stock, but only upon receipt of evidence of such loss, theft or destruction of such Convertible Preferred Stock certificate and indemnity, if requested, satisfactory to the Company and the Transfer Agent.

(b) The Company is not required to issue any certificates representing the Convertible Preferred Stock on or after the Mandatory Conversion Date or any Provisional Conversion Date. In lieu of the delivery of a replacement certificate following the Mandatory Conversion Date or any Provisional Conversion Date, the Transfer Agent, upon delivery of the evidence and indemnity described above, will deliver the shares of Common Stock issuable pursuant to the terms of the Convertible Preferred Stock formerly evidenced by the certificate.

(16) Transfer Agent, Registrar and Paying Agent. The duly appointed Transfer Agent, Registrar and Paying Agent for the Convertible Preferred Stock shall be UMB Bank, N.A. The Company may, in its sole discretion, remove the Transfer Agent in accordance with the agreement between the Company and the Transfer Agent; provided that the Company shall appoint a successor transfer agent who shall accept such appointment prior to the effectiveness of such removal. Upon any such removal or appointment, the Company shall send notice thereof by first-class mail, postage prepaid, to the Holders of the Convertible Preferred Stock.

(17) Consolidation, Merger and Sale of Assets. (a) The Company, without the consent of the Holders, may consolidate with or merge into any other Person or convey, transfer or lease all or substantially all its assets to any Person or may permit any Person to consolidate with or merge into, or transfer or lease all or substantially all its properties to, the Company; provided, however, that (i) the successor, transferee or lessee is organized under the laws of the United States or any political subdivision thereof; (ii) the shares of Convertible Preferred Stock will become shares of such successor, transferee or lessee, having in respect of such successor, transferee or lessee the same powers, preferences and relative participating, optional or other special rights and the qualification, limitations or restrictions thereon, the Convertible Preferred Stock had immediately prior to such transaction; and (c) the Company delivers to the Transfer Agent an Officers' Certificate and an Opinion of Counsel stating that such transaction complies with this Certificate of Designation.

(b) Upon any consolidation by the Company with, or merger by the Company into, any other person or any conveyance, transfer or lease of all or substantially all the assets of the Company as described in Section 17(a), the successor resulting from such consolidation or into which the Company is merged or the transferee or lessee to which such conveyance, transfer or lease is made, will succeed to, and be substituted for, and may exercise every right and power of, the Company under the shares of Convertible Preferred Stock, and thereafter, except in the case of a lease, the predecessor (if still in existence) will be released from its obligations and covenants with respect to the Convertible Preferred Stock.

(c) Notwithstanding the foregoing, nothing contained in this Section 17 shall limit the rights of Holders set out in, and any transaction described in this Section 17 shall be subject to the provisions of, Sections 10 and 14 hereof.

(18) SEC Reports. Whether or not the Company is required to file reports with the Securities and Exchange Commission, if any shares of Preferred Stock are outstanding, the Company shall file with the Securities and Exchange Commission all such reports and other information as it would be required to file with the Securities and Exchange Commission by Section 13(a) or 15(d) under the Securities Exchange Act of 1934. The Company shall supply each holder of Convertible Preferred Stock, upon request, without cost to such holder, copies of such reports or other information.

(19) Form. (a) Convertible Preferred Stock shall be issued in the form of one or more permanent global shares of Convertible Preferred Stock in definitive, fully registered form with the global legend (the "GLOBAL SHARES LEGEND"), as set forth on the form of Convertible Preferred Stock certificate attached hereto as Exhibit A (each, a "GLOBAL PREFERRED SHARE"), which is hereby incorporated in and expressly made a part of this Certificate of Designation. The Global Preferred Share may have notations, legends or endorsements required by law, stock exchange rules, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). The Global Preferred Share shall be deposited on behalf of the holders of the Convertible Preferred Stock represented thereby with the Registrar, at its New York office, as custodian for DTC or a Depositary, and registered in the name of the Depositary or a nominee of the Depositary, duly executed by the Company and countersigned and registered by the Registrar as hereinafter provided. The aggregate number of shares represented by each Global Preferred Share may from time to time be increased or decreased by adjustments made on the records of the Registrar and the Depositary or its nominee as hereinafter provided. This Section 19(a) shall apply only to a Global Preferred Share deposited with or on behalf of the Depositary. The Company shall execute and the Registrar shall, in accordance with this Section 19, countersign and deliver initially one or more Global Preferred Shares that (i) shall be registered in the name of Cede & Co. or other nominee of the Depositary and (ii) shall be delivered by the Registrar to Cede & Co. or pursuant to instructions received from Cede & Co. or held by the Registrar as custodian for the Depositary pursuant to an agreement between the Depositary and the Registrar. Members of, or participants in, the Depositary ("AGENT MEMBERS") shall have no rights under this Certificate with respect to any Global Preferred Share held on their behalf by the Depositary or by the Registrar as the custodian of the Depositary or

under such Global Preferred Share, and the Depositary may be treated by the Company, the Registrar and any agent of the Company or the Registrar as the absolute owner of such Global Preferred Share for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Registrar or any agent of the Company or the Registrar from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices of the Depositary governing the exercise of the rights of a holder of a beneficial interest in any Global Preferred Share. The Holder of the Convertible Preferred Shares may grant proxies or otherwise authorize any Person to take any action that a Holder is entitled to take pursuant to the Convertible Preferred Shares, this Certificate of Designation or the Certificate of Incorporation. Owners of beneficial interests in Global Preferred Shares shall not be entitled to receive physical delivery of certificated shares of Convertible Preferred Stock, unless (x) the Depositary is unwilling or unable to continue as Depositary for the Global Preferred Share and the Company does not appoint a qualified replacement for the Depositary within 90 days, (y) the Depositary ceases to be a "clearing agency" registered under the Exchange Act and the Company does not appoint a qualified replacement for the Depositary within 90 days or (z) the Company decides to discontinue the use of book-entry transfer through the Depositary. In any such case, the Global Preferred Share shall be exchanged in whole for definitive shares of Convertible Preferred Stock in registered form, with the same terms and of an equal aggregate Liquidation Preference. Definitive shares of Convertible Preferred Stock shall be registered in the name or names of the Person or Person specified by the Depositary in a written instrument to the Registrar.

(b) (i) An Officer shall sign the Global Preferred Share for the Company, in accordance with the Company's bylaws and applicable law, by manual or facsimile signature.

(ii) If an Officer whose signature is on a Global Preferred Share no longer holds that office at the time the Transfer Agent countersigned the Global Preferred Share, the Global Preferred Share shall be valid nevertheless.

(iii) A Global Preferred Share shall not be valid until an authorized signatory of the Transfer Agent manually countersigns Global Preferred Share. Each Global Preferred Share shall be dated the date of its countersignature.

(20) Miscellaneous. (a) All notices referred to herein shall be in writing, and, unless otherwise specified herein, all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three Business Days after the mailing thereof if sent by registered or certified mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Certificate of Designation) with postage prepaid, addressed: (i) if to the Company, to its office at 6100 N. Western, Oklahoma City, OK 73118, (Attention: Jennifer Grigsby) or to the Transfer Agent at its Corporate Trust Office, or other agent of the Company designated as permitted by this Certificate of Designation, or (ii) if to any Holder of the Convertible Preferred Stock or holder of shares of Common Stock, as the case may be, to such Holder at the address of such Holder as listed in the stock record books of the

Company (which may include the records of any transfer agent for the Convertible Preferred Stock or Common Stock, as the case may be), or (iii) to such other address as the Company or any such Holder, as the case may be, shall have designated by notice similarly given.

(b) The Company shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Convertible Preferred Stock or shares of Common Stock or other securities issued on account of Convertible Preferred Stock pursuant hereto or certificates representing such shares or securities. The Company shall not, however, be required to pay any such tax that may be payable in respect of any transfer involved in the issuance or delivery of shares of Convertible Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Convertible Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid or is not payable.

(c) The Liquidation Preference and the annual dividend rate set forth herein each shall be subject to equitable adjustment whenever there shall occur a stock split, combination, reclassification or other similar event involving the Convertible Preferred Stock. Such adjustments shall be determined in good faith by the Board of Directors and submitted by the Board of Directors to the Transfer Agent.

(21) Definitions. Unless otherwise defined herein, capitalized terms used in this Certificate of Designation shall have the following meanings:

"4.125% PREFERRED STOCK" shall mean the series of preferred stock, par value $0.01 per share, of the Company designated as the "4.125% Cumulative Convertible Preferred Stock."

"4.50% PREFERRED STOCK" shall mean the series of preferred stock, par value $0.01 per share, of the Company designated as the "4.50% Cumulative Convertible Preferred Stock."

"5.00% PREFERRED STOCK (SERIES 2003)" shall mean the series of preferred stock, par value $0.01 per share, of the Company designated as the "5.00% Cumulative Convertible Preferred Stock."

"5.00% PREFERRED STOCK (SERIES 2005)" shall mean the series of preferred stock, par value $0.01 per share, of the Company designated as the "5.00% Cumulative Convertible Preferred Stock (Series 2005)."

"5.00% PREFERRED STOCK (SERIES 2005 B)" shall mean the series of preferred stock, par value $0.01 per share, of the Company designated as the "5.00% Cumulative Convertible Preferred Stock (Series 2005B)."

"AFFILIATE" shall have the meaning given to that term in Rule 405 of the Securities Act of 1933, as amended, or any successor rule thereunder.

"AGENT MEMBERS" shall have the meaning set forth in Section 19(a) hereof.

"APPLICABLE MARKET VALUE" means the average of the Closing Prices per share of the Common Stock on each of the 20 consecutive Trading Days ending on the third Trading Day immediately preceding the Mandatory Conversion Date.

"BOARD OF DIRECTORS" means the Board of Directors of the Company or, with respect to any action to be taken by the Board of Directors, any Committee of the Board of Directors duly authorized to take such action.

"BUSINESS DAY" means any day other than a Saturday or Sunday or any other day on which commercial banks in The City of New York are authorized or required by law or executive order to close.

"CASH ACQUISITION" means the consummation of any acquisition (whether by means of a liquidation, share exchange, tender offer, consolidation, recapitalization, reclassification, merger of the Company, or any sale, lease or other transfer of the consolidated assets of the Company and its subsidiaries) or a series of related transaction or events pursuant to which all or substantially all of the Company's Common Stock is exchanged for, converted into or constitutes solely the right to receive cash, securities or other property more than 10% of which consists of cash or securities or other property that are not, or upon issuance will not be, traded on the New York Stock Exchange or quoted on the Nasdaq National Market.

"CASH ACQUISITION CONVERSION" shall have the meaning set forth in Section 10(a) hereof.

"CASH ACQUISITION CONVERSION DATE" means the effective date of any early conversion of Convertible Preferred Stock pursuant to Section 10 hereof.

"CASH ACQUISITION CONVERSION NOTICE" shall have the meaning set forth in Section 10(b) hereof.

"CASH ACQUISITION CONVERSION RATE" means the Conversion Rate set forth in the table below for the applicable effective date of the Cash Acquisition and the applicable Cash Acquisition Stock Price on such effective date (as such Cash Acquisition Stock Prices are adjusted pursuant to Section 14 hereof):

	Stock Price on Effective Date										
Effective Date	**$15.00**	**$20.00**	**$25.00**	**$29.05**	**$32.50**	**$34.86**	**$40.00**	**$45.00**	**$50.00**	**$60.00**	**$75.00**
June 30, 2006	8.0092	7.6119	7.3426	7.2136	7.1469	7.1197	7.0934	7.0932	7.1033	7.1271	7.1532
June 15, 2007	8.2846	7.8959	7.5491	7.3587	7.2528	7.2062	7.1537	7.1372	7.1395	7.1529	7.1693
June 15, 2008	8.5371	8.2832	7.8865	7.5868	7.4037	7.3172	7.2139	7.1773	7.1704	7.1702	7.1704
June 15, 2009	8.6059	8.6059	8.6059	8.6059	7.6923	7.1715	7.1715	7.1715	7.1715	7.1715	7.1715

If the Cash Acquisition Stock Price is in excess of the highest Cash Acquisition Stock Price set forth in the table above (as such amount is adjusted from time to time), then the Cash Acquisition Conversion Rate will be the Minimum Conversion Rate. If the Cash Acquisition Stock Price is less than the lowest Cash Acquisition Stock Price set forth in the table above (as such amount is adjusted from time to time), then the Cash Acquisition Conversion Rate will be the Maximum Conversion Rate (as such amount is adjusted from time to time).

If the effective date falls between the dates set forth under the heading "Effective Date" in the table above, or if the Cash Acquisition Stock Price falls between two amounts set forth in the table above, the Cash Acquisition Conversion Rate will be determined by straight-line interpolation between the Cash Acquisition Conversion Rates set forth for the higher and lower Cash Acquisition Stock Prices and effective dates, as applicable, based on a 365 day year.

"CASH ACQUISITION STOCK PRICE" means the consideration paid per share of Common Stock in a Cash Acquisition. If such consideration consists only of cash, the Cash Acquisition Stock Price shall equal the amount of cash paid per share. If such consideration consists of any property other than cash, the Cash Acquisition Stock Price shall be the average Closing Price per share of our Common Stock on the 10 Trading Days up to, but not including, the effective date of the Cash Acquisition.

"CERTIFICATE OF INCORPORATION" shall have the meaning set forth in the recitals.

"CLOSING PRICE" means, as of any date of determination, the closing sale price or, if no closing sale price is reported, the last reported sale price, per share of the Common Stock or any securities distributed in a Spin-Off, as the case may be, on the New York Stock Exchange on that date. If the Common Stock or any such securities distributed in a Spin-Off, as the case may be, is not then traded on the New York Stock Exchange on any date of determination, the Closing Price of the Common Stock or such securities on any date of determination means the closing sale price as reported in the composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock or such securities is so listed or quoted, or if the Common Stock or such securities is not so listed or quoted on a U.S. national or regional securities exchange, as reported by the Nasdaq stock market, or, if no closing price for the Common Stock or such securities is so reported, the last quoted bid price for the Common Stock or such securities in the over-the-counter market as reported by the National Quotation Bureau or similar organization, or, if that bid price is not available, the market price of the Common Stock or such securities on that date as determined by a nationally recognized independent investment banking firm retained for this purpose by the Company. For the purposes of this Certificate of Designation, all references herein to the closing sale price of the Common Stock on the New York Stock Exchange shall be such closing sale price as reflected on the website of the New York Stock Exchange (www.nyse.com) and as reported by Bloomberg Professional Service; provided that in the event that there is a discrepancy between the closing sale price as reflected on the website of the New York Stock Exchange and as reported by Bloomberg Professional Service, the closing sale price on the website of the New York Stock Exchange shall govern.

“COMMON STOCK” as used in this Certificate of Designation means the Company’s Common Shares, par value $0.01 per share, as the same exists at the date of filing of this Certificate of Designation relating to the Convertible Preferred Stock, or any other class of stock resulting from successive changes or reclassifications of such Common Shares consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. However, subject to the provisions of Section 14(e), shares of Common Stock issuable on conversion of shares of Convertible Preferred Stock shall include only shares of the class designated as Common Shares of the Company at the date of the filing of this Certificate of Designation with the Secretary of State of the State of Oklahoma or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which are not subject to redemption by the Company; provided that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all classes resulting from all such reclassifications.

“COMPANY” shall have the meaning set forth in the recitals.

“CONVERSION DATE” shall have the meaning set forth in Section 11(a) hereof.

“CONVERSION RATE” shall have the meaning set forth in Section 7(b) hereof.

“CONVERTIBLE PREFERRED STOCK” shall have the meaning set forth in Section 1 hereof.

“CORPORATE TRUST OFFICE” means the principal corporate trust office of the Transfer Agent at which, at any particular time, its corporate trust business shall be administered.

“CURRENT MARKET PRICE” per share of Common Stock on any date means the average of the daily Closing Prices for the five consecutive Trading Days preceding the earlier of the day preceding the date in question and the day before the “ex date” with respect to the issuance or distribution requiring such computation. The term “ex date,” when used with respect to any issuance or distribution, means the first date on which the Common Stock trades without the right to receive the issuance or distribution. For the purposes of determining the adjustment to the Conversion Rate for the purposes of Section 14(a)(iv)(B) hereof the Current Market Price per share of Common Stock means the average of the Closing Prices over the first ten Trading Days commencing on and including the fifth Trading Day following the “ex-date” for such distribution.

"DEPOSITARY" means DTC or its nominee or any successor appointed by the Company.

"DIVIDEND PAYMENT DATE" means (i) the 15th calendar day of March, June, September and December of each year, or the following Business Day if such day is not a Business Day, prior to the Mandatory Conversion Date and (ii) the Mandatory Conversion Date.

"DIVIDEND PERIOD" means the period ending on the day before a Dividend Payment Date and beginning on the preceding Dividend Payment Date or, if there is no preceding Dividend Payment Date, on the first date of issuance of the Convertible Preferred Stock.

"DIVIDEND RATE" shall have the meaning set forth in Section 3 hereof.

"DIVIDEND THRESHOLD AMOUNT" shall have the meaning set forth in Section 14(a)(v) hereof.

"DTC" means The Depository Trust Company.

"EARLY CONVERSION" shall have the meaning set forth in Section 8(a) hereof.

"EARLY CONVERSION DATE" shall have the meaning set forth in Section 8(e).

"ELECTING SHARE" shall have the meaning set forth in Section 14(e) hereof.

"EXCHANGE PROPERTY" shall have the meaning set forth in Section 14(e) hereof.

"EXPIRATION TIME" shall have the meaning set forth in Section 14(a)(vi) hereof.

"FAIR MARKET VALUE" means (a) in the case of any Spin-Off, the fair market value of the portion of those shares of capital stock or similar equity interests so distributed applicable to one share of Common Stock as of the fifteenth Trading Day after the "ex-date" for such Spin-Off, and (b) in all other cases the fair market value as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a resolution of the Board of Directors.

"FIXED CONVERSION RATES" means the Maximum Conversion Rate and the Minimum Conversion Rate.

"GLOBAL PREFERRED SHARE" shall have the meaning set forth in Section 19(a) hereof.

"GLOBAL SHARES LEGEND" shall have the meaning set forth in Section 19(a) hereof.

"HOLDER" means the person in whose name the shares of the Convertible Preferred Stock are registered, which may be treated by the Company and the Transfer Agent as the absolute owner of the shares of Convertible Preferred Stock for the purpose of making payment and settling conversions and for all other purposes.

"INITIAL PRICE" shall have the meaning set forth in Section 7(b) hereof.

"ISSUE DATE" shall mean June 30, 2006, the original date of issuance of the Convertible Preferred Stock.

"JUNIOR STOCK" shall mean all classes of common stock of the Company and the Series A Junior Participating Convertible Preferred Stock and each other class of capital stock or series of preferred stock established after the Issue Date, by the Board of Directors, the terms of which do not expressly provide that such class or series ranks senior to or on parity with the Convertible Preferred Stock as to dividend rights or rights upon the liquidation, winding-up or dissolution of the Company.

"LIQUIDATION PREFERENCE" means, as to the Convertible Preferred Stock, $250.00 per share.

"MANDATORY CONVERSION DATE" means June 15, 2009.

"MAXIMUM CONVERSION RATE" shall have the meaning set forth in Section 7(b)(iii) hereof.

"MINIMUM CONVERSION RATE" shall have the meaning set forth in Section 7(b)(i) hereof.

"OFFICER" means the Chief Executive Officer, the Chief Operating Officer, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of the Company.

"OFFICER'S CERTIFICATE" means a certificate of the Company, signed by any duly authorized Officer of the Company.

"OPINION OF COUNSEL" shall mean a written opinion from legal counsel who is acceptable to the Transfer Agent. The counsel may be an employee of or counsel to the Company or the Transfer Agent.

"PARITY STOCK" shall mean the 5.00% Preferred Stock (Series 2003), the 5.00% Preferred Stock (Series 2005), the 4.50% Preferred Stock, the 4.125% Preferred Stock, the 5.00% Preferred Stock (Series 2005 B) and any class of capital stock or series of preferred stock established after the Issue Date by the Board of Directors, the terms of which expressly provide that such class or series will rank on parity with the Convertible Preferred Stock as to dividend rights or rights upon the liquidation, winding-up or dissolution of the Company.

“PERSON” means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company or trust.

“PROVISIONAL CONVERSION DATE” means the date fixed for conversion of shares of Convertible Preferred Stock into shares of Common Stock pursuant to Section 9 above or, if the Company shall default in the payment of (1) an amount equal to any accrued, cumulated and unpaid dividends on the shares of Convertible Preferred Stock then outstanding, whether or not declared (other than previously declared dividends on the Convertible Preferred Stock payable to Holders of record as of a prior date), plus (2) the present value of all remaining future dividend payments on the shares of Convertible Preferred Stock then outstanding, through and including the Mandatory Conversion Date, in each case, when the Company is legally permitted to and makes such payment.

“PROVISIONAL CONVERSION NOTICE” shall have the meaning set forth in Section 9(b) hereof.

“PROVISIONAL CONVERSION NOTICE DATE” shall have the meaning set forth in Section 9(a) hereof.

“PUBLIC ACQUIRER ACQUISITION VALUE” means, for each Trading Day in the Valuation Period, the value of the consideration paid per share of Common Stock in connection with a Public Acquirer Change of Control, which shall equal (a) the face amount of cash included in such consideration, (b) the Closing Price of such Acquirer Common Stock on each such Trading Day, and (c) the fair market value of any other security, asset or property on each such Trading Day, as determined by two independent nationally recognized investment banks selected by the Transfer Agent for such purpose. If the kind or amount of securities, cash and other property receivable upon such Public Acquirer Change of Control is not the same for each share of Common Stock held immediately prior to such Public Acquirer Change of Control by other than a Constituent Person or an Affiliate thereof and in respect of which such rights of election shall have been exercised, then the kind and amount of securities, cash and other property receivable upon such Public Acquirer Change of Control by each Electing Share shall be deemed to be the weighted average of the kinds and amounts so receivable per share by a plurality of the Electing Shares.

“PUBLIC ACQUIRER CHANGE OF CONTROL” means a Cash Acquisition in which the Person acquiring a majority of the Company’s Common Stock or the Person formed by or surviving such Cash Acquisition, or any entity that is a direct or indirect “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the total voting power of all shares of such Person’s capital stock that are entitled to vote generally in the election of directors, but in each case other than the Company, has a class of common stock traded on the New York Stock Exchange or quoted on the Nasdaq national Market (such class of common stock, the “ACQUIRER COMMON STOCK”).

"PUBLIC ACQUIRER ELECTION" shall have the meaning set forth in Section 10(h) hereof.

"PURCHASED SHARES" shall have the meaning set forth in Section 14(a)(vi) hereof.

"RECORD DATE" means the later of (i) the 1st calendar day (or the following Business Day if the 1st calendar day is not a Business Day) of the calendar month in which the applicable Dividend Payment Date falls and (ii) the close of business on the day on which the Board of Directors, or an authorized committee of the Board of Directors, declares the dividend payable.

"RECORD HOLDER" means the Holder of record of the Convertible Preferred Stock as they appear on the stock register of the Company at the close of business on a Record Date.

"REORGANIZATION EVENT" shall have the meaning set forth in Section 14(e) hereof.

"SENIOR STOCK" shall mean each class of capital stock or series of preferred stock established after the Issue Date by the Board of Directors, the terms of which expressly provide that such class or series will rank senior to the Convertible Preferred Stock as to dividend rights or rights upon the liquidation, winding-up or dissolution of the Company.

"SHELF REGISTRATION STATEMENT" shall mean shelf registration statement filed with the Securities and Exchange Commission to cover resales of shares of Common Stock by holders thereof, as described under Section 3A(f).

"SPIN-OFF" means a dividend or other distribution of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit of the Company.

"THRESHOLD APPRECIATION PRICE" shall have the meaning set forth in Section 7(b) hereof.

"TRADING DAY" means a day on which the Common Stock:

(a) is not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business; and

(b) has traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the Common Stock.

"TRANSFER AGENT" shall mean UMB Bank, N.A., the Company's duly appointed transfer agent, registrar and conversion and dividend disbursing agent for the Convertible Preferred Stock. The Company may, in its sole discretion, remove the Transfer Agent with 10 days' prior notice to the Transfer Agent; provided, that the Company shall appoint a successor Transfer Agent who shall accept such appointment prior to the effectiveness of such removal.

"TREASURY YIELD" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the Provisional Conversion Date (or, if such Statistical Release is no longer published, any publicly available source for similar market data)) most nearly equal to the then remaining term to the Mandatory Conversion Date; provided, however, that if the then remaining term to the Mandatory Conversion Date is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Treasury Yield shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of U.S. Treasury securities for which such yields are given, except that if the then remaining term to the Mandatory Conversion Date is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year shall be used.

"VALUATION PERIOD" shall have the meaning set forth in Section 10(h).

"VOTING RIGHTS CLASS" shall have the meaning set forth in Section 5 hereof.

"VOTING RIGHTS TRIGGERING EVENT" shall mean the failure of the Company to pay dividends on the Convertible Preferred Stock with respect to six or more Dividend Periods (whether or not consecutive).

IN WITNESS WHEREOF, the Company has caused this certificate to be signed and attested this 30th day of June, 2006.

CHESAPEAKE ENERGY CORPORATION

By: /s/ JENNIFER M. GRIGSBY
Jennifer M. Grigsby, Vice President

Attest: /s/ ANITA L. BRODRICK
Anita L. Brodrick
Assistant Secretary

EXHIBIT A

FORM OF 6.25% MANDATORY CONVERTIBLE PREFERRED STOCK

SEE REVERSE
FOR LEGEND

Number: [-]

6.25 % Mandatory Convertible Preferred Stock [-] Shares

CHESAPEAKE ENERGY CORPORATION CUSIP NO.: [-]

FACE OF SECURITY

This certifies that Cede & Co. is the owner of fully paid and non-assessable shares of the 6.25% Mandatory Convertible Preferred Stock, par value $0.01 each of Chesapeake Energy Corporation (hereinafter called the Company), transferable on the books of the Company by the holder hereof in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all the provisions of the Certificate of Incorporation of Chesapeake Energy Corporation and all amendments thereto (copies of which are on file at the office of the Transfer Agent) to all of which the holder of this Certificate by acceptance hereof assents. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

By ______________________	______________________	______________________
Authorized Signature	Secretary	Chairman and Chief Executive Officer

REVERSE OF SECURITY

CHESAPEAKE ENERGY CORPORATION

The shares of 6.25% Mandatory Convertible Preferred Stock (the "MANDATORY CONVERTIBLE PREFERRED STOCK") will automatically convert on June 15, 2009 into a number of common shares, par value $0.01 per share, of the Company (the "COMMON SHARES") as provided in the Certificate of Designation of the Company relating to the Mandatory Convertible Preferred Stock (the "CERTIFICATE OF DESIGNATION"). The shares of the Mandatory Convertible Preferred Stock are also convertible at the option of either the holder or the Company, respectively, into Common Shares at any time prior to June 15, 2009 as provided in the Certificate of Designation. The preceding description is qualified in its entirety by reference to the Certificate of Designation, a copy of which will be furnished by the Company to any shareholder without charge upon request addressed to the Secretary of the Company at its principal office in Oklahoma City, OK or to the Transfer Agent named on the face of this certificate.

The Company will furnish to any shareholders, upon request, and without charge, a full statement of the designations, relative rights, preferences and limitations of the shares of each class and series authorized to be issued so far as the same have been determined and of the authority of the Board of Directors to divide the shares into classes or series and to determine and change the relative rights, preferences and limitations of any class or series. Any such request should be addressed to the Secretary of the Company at its principal office in Oklahoma City, OK, or to the Transfer Agent named on the face of this certificate.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR THE TRANSFER AGENT NAMED ON THE FACE OF THIS CERTIFICATE, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO., OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO. HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE CERTIFICATE OF DESIGNATION. IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE TRANSFER AGENT NAMED ON THE FACE OF THIS CERTIFICATE SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

ASSIGNMENT

For value received, ____________________ hereby sell, assign and transfer unto

Please Insert Social Security or
Other Identifying Number of Assignee

____

____

(Please Print or Typewrite Name and Address, Including Zip Code, of Assignee)

____

____

____

shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

Attorney to transfer the said stock on the books of the within named Company with full power of substitution in the premises.

Dated ____________

____

NOTICE: The Signature to this Assignment Must Correspond with the Name As Written Upon the Face of the Certificate in Every Particular, Without Alteration or Enlargement or Any Change Whatever.

SIGNATURE GUARANTEED

____

(Signature Must Be Guaranteed by a Member of a Medallion Signature Program)

CERTIFICATE OF ELIMINATION

Chesapeake Energy Corporation (the "Corporation"), a corporation organized and existing under the Oklahoma General Corporation Act,

DOES HEREBY CERTIFY:

FIRST: That the Corporation has acquired 2,156,184 shares of its 6.25% Mandatory Convertible Preferred Stock, par value $.01 per share (the "Acquired Shares").

SECOND: That the Board of Directors of the Corporation has adopted resolutions retiring the Acquired Shares.

THIRD: That the Certificate of Designation for the 6.25% Mandatory Convertible Preferred Stock (the "Certificate of Designation") prohibits the reissuance of shares when so retired and, pursuant to the provisions of Section 1078 of the Oklahoma General Corporation Act, upon the date of the filing of this Certificate of Elimination, the Certificate of Designation shall be amended so as to reduce the number of authorized shares of the 6.25% Mandatory Convertible Preferred Stock by 2,156,184 shares, being the total number of the Acquired Shares retired by the Board of Directors. Accordingly, the number of authorized but undesignated shares of preferred stock of the Company shall be increased by 2,156,184 shares. The retired Acquired Shares have a par value of $.01 per share and an aggregate par value of $21,561.84.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed by its Treasurer, Senior Vice President and Corporate Secretary, and attested to by its Assistant Secretary, this 27th day of November, 2007.

CHESAPEAKE ENERGY CORPORATION

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer, Senior Vice President and
Corporate Secretary

ATTEST:

/s/ Anita L. Brodrick
Anita L. Brodrick
Assistant Secretary

CERTIFICATE OF ELIMINATION

Chesapeake Energy Corporation (the “Corporation”), a corporation organized and existing under the Oklahoma General Corporation Act,

DOES HEREBY CERTIFY:

FIRST: That the Corporation has acquired 48 shares of its 6.25% Mandatory Convertible Preferred Stock, par value $.01 per share (the “Acquired Shares”).

SECOND: That the Board of Directors of the Corporation has adopted resolutions retiring the Acquired Shares.

THIRD: That the Certificate of Designation for the 6.25% Mandatory Convertible Preferred Stock (the “Certificate of Designation”) prohibits the reissuance of shares when so retired and, pursuant to the provisions of Section 1078 of the Oklahoma General Corporation Act, upon the date of the filing of this Certificate of Elimination, the Certificate of Designation shall be amended so as to reduce the number of authorized shares of the 6.25% Mandatory Convertible Preferred Stock by 48 shares, being the total number of the Acquired Shares retired by the Board of Directors. Accordingly, the number of authorized but undesignated shares of preferred stock of the Company shall be increased by 48 shares. The retired Acquired Shares have a par value of $.01 per share and an aggregate par value of $0.48.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed by its Treasurer, Senior Vice President and Corporate Secretary, and attested to by its Assistant Secretary, this 3rd day of January, 2008.

CHESAPEAKE ENERGY CORPORATION

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Treasurer, Senior Vice President and
Corporate Secretary

ATTEST:

/s/ Anita L. Brodrick
Anita L. Brodrick
Assistant Secretary

LIMITED WAIVER AND CONSENT

RECITALS:

Reference is made to that certain Seventh Amended and Restated Credit Agreement dated as of November 2, 2007 (the "Agreement"), among Chesapeake Energy Corporation ("CEC"), Chesapeake Exploration, L.L.C. ("Chesapeake Exploration") and Chesapeake Appalachia, L.L.C. ("Chesapeake Appalachia", and together with Chesapeake Exploration, collectively, "Borrowers"), Union Bank of California, N.A., as Administrative Agents ("Agent"), the other agents named therein and the Lenders from time to time parties thereto ("Lenders"). Terms used and not defined herein shall have the meanings given them in the Agreement.

Chesapeake Appalachia intends to execute a conveyance (the "VPP Conveyance") of a volumetric production payment (the "VPP") to be carved out of its working interests in approximately 4,200 specified presently producing wells (the "VPP Wells") in Kentucky and West Virginia that are not included in the Collateral. The VPP Conveyance will not cover any other wells in which Chesapeake Appalachia owns an interest. In connection with the VPP, Chesapeake Appalachia intends to (i) enter into a Purchase and Sale Agreement (the "VPP PSA"), containing certain representations, warranties and covenants relating to the VPP and the VPP Wells and a restriction on further assignments of the VPP Wells, (ii) enter into a Gas Purchase Contract with the buyer of the VPP (the "Gas Purchase Contract") to purchase the VPP buyer's share of production at or near the wellhead at an index price (reduced for anticipated and estimated shrinkage and escalating transportation costs) and (iii) grant Liens on its retained interests in the VPP Wells and the production therefrom and its rights, titles and interests related thereto pursuant to one or more mortgages and deeds of trust (the "VPP Mortgages"), to secure performance of its ongoing covenants and obligations pursuant to the VPP Conveyance, the VPP PSA, and the Gas Purchase Contract. CEC intends to guaranty (the "CEC Guaranty") Chesapeake Appalachia's performance of these same covenants and obligations.

CEC and Borrowers have requested that Agent and Lenders constituting Majority Lenders consent to, and waive certain violations of the Agreement which would otherwise result from, the transactions described above.

LIMITED WAIVER AND CONSENT:

Subject to the conditions and limitations set forth below, Agent and Lenders hereby (i) consent to the conveyance of the VPP and the entering into and performance of the VPP Mortgages and the CEC Guaranty, and (ii) waive any violations of (A) Section 7.02 of the Agreement that would result from the Indebtedness of Chesapeake Appalachia in respect of the VPP and the Indebtedness of CEC in respect of the CEC Guaranty, (B) Section 7.03 of the Agreement that would result from the Liens under the VPP Mortgages, and (C) Section 7.12 of the Agreement that would result from any restrictions on Chesapeake Appalachia's ability to assign or grant Liens on its retained interests in the VPP Wells and the assets subject to the VPP Mortgages.

For the avoidance of doubt with respect to the treatment of the VPP under the Credit Agreement, CEC, Borrowers and Lenders acknowledge and agree that, (i) Consolidated Indebtedness shall not include any Indebtedness in respect of the VPP and (ii) without duplication with respect to any other provision subtracting or excluding such income or gain in determining Consolidated EBITDA, any income or gain reflected in Consolidated Net Income for any period in respect of the VPP shall be subtracted from Consolidated Net Income for purposes of determining Consolidated EBITDA for such period.

Notwithstanding anything to the contrary under the Credit Agreement, CEC and Borrowers agree that no Group Member shall enter into or be subject to any Qualifying Production Call Obligation, and the exclusion of Qualifying Production Call Obligations from (i) the definition of "Indebtedness" in the Agreement and (ii) the restrictions on Liens provision under Section 7.3(o) of the Agreement, shall no longer be applicable.

LIMITATIONS AND CONDITIONS:

This Limited Waiver and Consent shall be effective when executed or consented to by Majority Lenders. Borrowers and CEC hereby represent and warrant to Agent and Lenders that immediately after giving effect to this Limited Waiver and Consent there shall exist no Default or Event of Default and immediately after giving effect to this Limited Waiver and Consent all representations and warranties contained herein, in the Agreement or otherwise made in writing by any Group Member in connection herewith or therewith shall be true and correct in all material respects with the same force and effect as if those representations and warranties had been made on and as of the date hereof.

Except as expressly waived or agreed herein, all covenants, obligations and agreements of Borrowers and CEC contained in the Agreement shall remain in full force and effect in accordance with their terms. Without limitation of the foregoing, the consents, waivers and agreements set forth herein are limited precisely to the extent set forth herein and shall not be deemed to (a) be a consent or agreement to, or waiver or modification of, any other term or condition of the Agreement or any of the documents referred to therein, or (b) except as expressly set forth herein, prejudice any right or rights which Agent or any Lender may now have or may have in the future under or in connection with the Agreement or any of the documents referred to therein. Except as expressly modified hereby, the terms and provisions of the Agreement and any other documents or instruments executed in connection with any of the foregoing, are and shall remain in full force and effect, and the same are hereby ratified and confirmed by Borrowers and CEC in all respects.

This Limited Waiver and Consent and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the laws of the State of Texas.

This Limited Waiver and Consent and the documents referred to herein represent the entire understanding of the parties hereto regarding the subject matter hereof and supersede all prior and contemporaneous oral and written agreements of the parties hereto with respect to the subject matter hereof. This Limited Waiver and Consent is a "Loan Document" as defined and described in the Agreement and all of the terms and provisions of the Agreement relating to Loan Documents shall apply hereto.

This Limited Waiver and Consent may be separately executed in counterparts and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same agreement.

[*Remainder of page intentionally left blank*.]

IN WITNESS WHEREOF, the undersigned parties have executed this Limited Waiver and Consent as of the 12th day of December, 2007.

CHESAPEAKE EXPLORATION, L.L.C.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Senior Vice President and Treasurer

CHESAPEAKE APPALACHIA, L.L.C.

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Senior Vice President and Treasurer

CHESAPEAKE ENERGY CORPORATION

By: /s/ Jennifer M. Grigsby
Jennifer M. Grigsby
Senior Vice President and Treasurer

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

UNION BANK OF CALIFORNIA, N.A.
as Administrative Agent, as Swing Line Lender, as
an Issuing Lender and as a Lender

By: /s/ Randall L. Osterberg
Name: Randall L. Osterberg
Title: Vice President – US Marketing Manager

By: /s/ Timothy Brendel
Name: Timothy Brendel
Title: Assistant Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

THE ROYAL BANK OF SCOTLAND PLC, as Syndication Agent, as an Issuing Lender and as a Lender

By: /s/ Scott L. Joyce
Name: Scott L. Joyce
Title: Senior Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

BNP PARIBAS, as Co-Documentation Agent
and as a Lender

By: /s/ David Dodd
Name: David Dodd
Title: Managing Director

By: /s/ Richard Hawthorne
Name: Richard Hawthorne
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

BANK OF AMERICA, N.A.,
as Co-Documentation Agent and as a Lender

By: /s/ Ronald E. McKaig
Name: Ronald E. McKaig
Title: Senior Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

SUNTRUST BANK, as Co-Documentation Agent
and as a Lender

By: /s/ Sean Roche
Name: Sean Roche
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

CALYON NEW YORK BRANCH,
as a Lender

By: /s/ Dennis E. Petito
Name: Dennis E. Petito
Title: Managing Director

By: /s/ Michael D. Willis
Name: Michael D. Willis
Title: Director

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

WACHOVIA BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ H.R. Biedrzychki
Name: H.R. Biedrzychki
Title: Director

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

WELLS FARGO BANK, N.A., as a Lender

By: /s/ Dustin S. Hansen
Name: Dustin S. Hansen
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

BANK OF SCOTLAND PLC, as a Lender

By: /s/ Karen Weich
Name: Karen Weich
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

CITICORP USA, INC., as a Lender

By: /s/ David Hunt
Name: David Hunt
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

BMO CAPITAL MARKETS FINANCING, INC.,
as a Lender

By: /s/ Mary Lou Allen
Name: Mary Lou Allen
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

THE BANK OF NOVA SCOTIA, as a Lender

By: /s/ Andrew Ostrov
Name: Andrew Ostrov
Title: Director

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Daria Mahoney
Name: Daria Mahoney
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

BARCLAYS BANK PLC, as a Lender

By: /s/ Joseph Gyurindak
Name: Joseph Gyurindak
Title: Director

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

ABN AMRO BANK N.V., as a Lender

By: /s/ J.A. Conn
Name: J.A. Conn
Title: Managing Director

By: /s/ John D. Reed
Name: John D. Reed
Title: Director

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

NATIXIS, as a Lender

By: /s/ Donovan C. Broussard
Name: Donovan C. Broussard
Title: Managing Director

By: /s/ Louis P. Laville, III
Name: Louis P. Laville, III
Title: Managing Director

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

COMERICA BANK, as a Lender

By: /s/ Peter L. Sefzik
Name: Peter L. Sefzik
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

BANK OF OKLAHOMA, N.A., as a Lender

By: /s/ Mike Weatherholt
Name: Mike Weatherholt
Title: Officer

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

TORONTO DOMINION (TEXAS) LLC, as a Lender

By: /s/ Debbi L. Brito
Name: Debbi L. Brito
Title: Authorized Signatory

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Kay Murphy
Name: Kay Murphy
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

COMPASS BANK, as a Lender

By: /s/ Kathleen J. Bowen
Name: Kathleen J. Bowen
Title: Senior Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

RZB FINANCE LLC, as a Lender

By: /s/ Shirley Ritch
Name: Shirley Ritch
Title: Assistant Vice President

By: /s/ John A. Valiska
Name: John A. Valiska
Title: First Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

MIDFIRST BANK, as a Lender

By: /s/ Steve A. Griffin
Name: Steve A. Griffin
Title: Senior Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

ARVEST BANK, as a Lender

By: /s/ Cindy Batt
Name: Cindy Batt
Title: Senior Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

MORGAN STANLEY BANK, as a Lender

By: /s/ Daniel Twenge
Name: Daniel Twenge
Title: Authorized Signatory

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

BEAR STEARNS CORPORATE LENDING INC., as a Lender

By: /s/ Victor F. Bulzacchelli
Name: Victor F. Bulzacchelli
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

CREDIT SUISSE, CAYMAN ISLANDS BRANCH, as a Lender

By: /s/ Brian Caldwell
Name: Brian Caldwell
Title: Director

By: /s/ Christopher Day
Name: Christopher Day
Title: Associate

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

UBS LOAN FINANCE LLC, as a Lender

By: /s/ Richard L. Tavrow
Name: Richard L. Tavrow
Title: Director

By: /s/ Irja R. Otsa
Name: Irja R. Otsa
Title: Associate Director

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

DEUTSCHE BANK TRUST COMPANY AMERICAS, as a Lender

By: /s/ Dusan Lazarov
Name: Dusan Lazarov
Title: Vice President

By: /s/ Omayra Laucella
Name: Omayra Laucella
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

GOLDMAN SACHS BANK USA, as a Lender

By: /s/ William M. Yarbenet
Name: William M. Yarbenet
Title: Vice President

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

LEHMAN BROTHER COMMERCIAL BANK, as a Lender

By: /s/ Brian McNany
Name: Brian McNany
Title: Authorized Signatory

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

GOLDMAN SACHS CREDIT PARTNERS L.P., as a Lender

By: /s/ Pedro Ramirez
Name: Pedro Ramirez
Title: Authorized Signatory

[SIGNATURE PAGE TO LIMITED WAIVER AND CONSENT]

CHESAPEAKE ENERGY CORPORATION

2003 STOCK AWARD PLAN FOR NON-EMPLOYEE DIRECTORS
(as amended)

1. Purposes of the Plan. This Plan is established by the Company to aid in attracting and retaining persons of outstanding competence to serve on the Board of Directors who are not employed by the Company. The Plan is intended to enable such persons to acquire or increase ownership interests in the Company on a basis that will encourage them to use their best efforts to promote the growth and profitability of the Company. Consistent with these objectives, the Plan provides for the award of Shares to Non-Employee Directors on the terms and subject to the conditions set forth in the Plan.

2. Establishment. The Plan is effective as of January 3, 2003.

3. Definitions. As used herein, the following definitions shall apply:

(a) “Applicable Laws” means the requirements of state corporate laws, United States federal and state securities laws, the Code, and any stock exchange or quotation system on which the Common Stock is listed or quoted.

(b) “Board” means the Board of Directors of the Company.

(c) “Code” means the Internal Revenue Code of 1986, as amended.

(d) “Common Stock” means the Company’s common stock.

(e) “Company” means Chesapeake Energy Corporation, an Oklahoma corporation, and any successor to the Company.

(f) “Director” means a member of the Board.

(g) “Non-Employee Director” means a Director who, as of the date first elected or appointed to the Board, is not an officer or otherwise employed by the Company or any of its subsidiaries.

(h) “Paragraph” means a paragraph of the Plan.

(i) “Participant” means a Non-Employee Director who has been awarded Shares under the Plan.

(j) “Plan” means the Chesapeake Energy Corporation 2003 Stock Award Plan for Non-Employee Directors, as may be amended from time to time.

(k) “Share” means a share of the Common Stock, as adjusted in accordance with Paragraph 7.

(l) “Shareholder Approval” means approval by the holders of a majority of the outstanding shares of Common Stock, present or represented and entitled to vote at a meeting called for such purposes.

4. Stock Subject to the Plan. Subject to the provisions of Paragraph 7, the maximum aggregate number of Shares that may be awarded under the Plan is 100,000 Shares.

5. Administration of the Plan. The Plan shall be administered by the Board. Subject to the provisions of the Plan, the Board shall have the authority to prescribe, amend and rescind rules and regulations relating to the Plan and to construe and interpret the terms of the Plan and awards made pursuant to the Plan. All decisions, determinations and interpretations of the Board shall be final and binding on all Participants.

6. Award of Shares.

(a) Each individual who becomes a Non-Employee Director after the effective date of the Plan shall be awarded 10,000 Shares on his or her first day of service as a Non-Employee Director.

(b) In consideration for the Shares awarded under the Plan, each Participant shall pay the Company an amount equal to the aggregate par value of the Shares awarded (the "Share Consideration"). The Share Consideration shall be payable in cash, provided the Company shall withhold the Share Consideration from the first payment of director fees to be made by the Company to the Participant as a Non-Employee Director if the Share Consideration has not been earlier paid. A Participant must pay the amount of taxes required by law as a result of an award of Shares under the Plan.

(c) Upon receipt of the Share Consideration and subject to Paragraph 9, the Company shall issue the Participant a stock certificate evidencing the Shares awarded to the Participant under the Plan.

7. Adjustments Upon Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number and type of Shares which have been authorized for issuance under the Plan but as to which no Shares have yet been awarded, shall be proportionately adjusted for any increase or decrease in the number or type of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

8. Amendment and Termination of the Plan. The Board may suspend or terminate the Plan at any time. In addition, the Board may, from time to time, amend the Plan in any manner, but may not adopt any amendment without Shareholder Approval if in the opinion of counsel to the Company, Shareholder Approval is required by any Applicable Laws.

9. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares awarded pursuant to the Plan shall not be issued unless the issuance and delivery of such Shares comply with Applicable Laws. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue such Shares as to which such requisite authority shall not have been obtained

(b) Investment Representations. As a condition to the award of Shares under the Plan, the Board may require a Participant to represent and warrant at the time of the award that the Shares will be held only for investment and without any present intention to sell or distribute such Shares if, in the opinion of legal counsel to the Company, such a representation is necessary or appropriate.

10. Reservation of Shares. The Company shall at all times reserve and keep available such number of authorized and unissued Shares or Shares in its reserve of treasury stock as shall be sufficient to satisfy the requirements of the Plan.

11. Right to Continued Board Membership. Participation in the Plan shall not give any Participant any right to remain on the Board.

12. Construction. The titles and headings of the sections in the Plan are for the convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

13. Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Oklahoma, except as superseded by applicable federal law.

Exhibit 10.1.16.1

CHESAPEAKE ENERGY CORPORATION

AMENDED AND RESTATED DEFERRED COMPENSATION PLAN

EFFECTIVE JANUARY 1, 2008

Chesapeake Energy Corporation Amended and Restated Deferred Compensation Plan

ARTICLE I

Establishment and Purpose

Chesapeake Energy Corporation (the "Company") established the Chesapeake Energy Corporation Deferred Compensation Plan, effective as of January 1, 2003, and the Chesapeake Energy Corporation 401(k) Make-Up Plan, also effective as of January 1, 2003 (the "Prior Plans"). The Company hereby amends and restates the Prior Plans, effective January 1, 2008, into a single plan, to be hereafter known as the Chesapeake Energy Corporation Amended and Restated Deferred Compensation Plan" (the "Plan").

This amendment and restatement applies only to amounts deferred under the Prior Plans on or after January 1, 2005, and to amounts deferred prior to January 1, 2005 that were not vested as of December 31, 2004. Amounts deferred under the Prior Plans prior to January 1, 2005 that were vested as of December 31, 2004 (the "Grandfathered Accounts") shall be subject to the provisions of the Prior Plans as in effect on October 3, 2004, as the same may be amended from time to time by the Company without material modification, it being expressly intended that such Grandfathered Accounts are to remain exempt from the requirements of Code Section 409A. The provisions of the Plan applicable to Grandfathered Accounts are reflected in this document for ease of reference.

The purpose of the Plan continues to be to attract and retain key employees and Directors by providing each Participant with an opportunity to defer receipt of a portion of their salary, bonus, and other specified compensation. The Plan is not intended to meet the qualification requirements of Code Section 401(a), but is intended to meet the requirements of Code Section 409A, and shall be operated and interpreted consistent with that intent.

The Plan constitutes an unsecured promise by a Participating Employer to pay benefits in the future. Participants in the Plan shall have the status of general unsecured creditors of the Company or the Adopting Employer, as applicable. Each Participating Employer shall be solely responsible for payment of the benefits of its employees and their beneficiaries. The Plan is unfunded for Federal tax purposes and is intended to be an unfunded arrangement for eligible employees who are part of a select group of management or highly compensated employees of the Employer within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA. Any amounts set aside to defray the liabilities assumed by the Company or an Adopting Employer will remain the general assets of the Company or the Adopting Employer and shall remain subject to the claims of the Company's or the Adopting Employer's creditors until such amounts are distributed to the Participants.

ARTICLE II

Definitions

2.1 Account. Account means a bookkeeping account maintained by the Committee to record the payment obligation of a Participating Employer to a Participant as determined under the terms of the Plan. The Committee may maintain an Account to record the total obligation to a Participant and component Accounts to reflect amounts payable at different times and in different forms. Reference to an Account means any such Account established by the Committee, as the context requires. Accounts are intended to constitute unfunded obligations within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

2.2 Account Balance. Account Balance means, with respect to any Account, the total payment obligation owed to a Participant from such Account as of the most recent Valuation Date.

2.3 Adopting Employer. Adopting Employer means an Affiliate who, with the consent of the Committee, has adopted the Plan for the benefit of its eligible employees.

2.4 Affiliate. Affiliate means a corporation, trade or business that, together with the Company, is treated as a single employer under Code Section 414(b) or (c).

2.5 Beneficiary. Beneficiary means a natural person, estate, or trust designated by a Participant to receive payments to which a Beneficiary is entitled in accordance with provisions of the Plan. The Participant’s spouse, if living, otherwise the Participant’s estate, shall be the Beneficiary if: (i) the Participant has failed to properly designate a Beneficiary, or (ii) all designated Beneficiaries have predeceased the Participant.

A former spouse shall have no interest under the Plan, as Beneficiary or otherwise, unless the Participant designates such person as a Beneficiary after dissolution of the marriage.

2.6 Business Day. A Business Day is each day on which the New York Stock Exchange is open for business.

2.7 Change in Control. Change in Control, with respect to a Participating Employer that is organized as a corporation, occurs on the date on which any of the following events occur (i) a change in the ownership of the Participating Employer; (ii) a change in the effective control of the Participating Employer; (iii) a change in the ownership of a substantial portion of the assets of the Participating Employer.

For purposes of this Section, a change in the ownership of the Participating Employer occurs on the date on which any one person, or more than one person acting as a group, acquires ownership of stock of the Participating Employer that, together with stock held by such person or group constitutes more than 50% of the total fair market value or total voting power of the stock of the Participating Employer. A change in the effective control of the Participating Employer occurs on the date on which either (i) a person, or more than one person acting as a group, acquires ownership of stock of the Participating Employer possessing 35% or more of the total voting power of the stock of the Participating Employer, taking into account all such stock acquired during the 12-month period ending on the date of the most recent acquisition, or (ii) a majority of the members of the

Participating Employer's Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of such Board of Directors prior to the date of the appointment or election, but only if no other corporation is a majority shareholder of the Participating Employer. A change in the ownership of a substantial portion of assets occurs on the date on which any one person, or more than one person acting as a group, other than a person or group of persons that is related to the Participating Employer, acquires assets from the Participating Employer that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Participating Employer immediately prior to such acquisition or acquisitions, taking into account all such assets acquired during the 12-month period ending on the date of the most recent acquisition.

An event constitutes a Change in Control with respect to a Participant only if the Participant performs services for the Participating Employer that has experienced the Change in Control, or the Participant's relationship to the affected Participating Employer otherwise satisfies the requirements of Treasury Regulation Section 1.409A-3(i)(5)(ii).

The determination as to the occurrence of a Change in Control shall be based on objective facts and in accordance with the requirements of Code Section 409A.

2.8 Claimant. Claimant means a Participant or Beneficiary filing a claim under Article XII of this Plan.

2.9 Code. Code means the Internal Revenue Code of 1986, as amended from time to time.

2.10 Code Section 409A. Code Section 409A means section 409A of the Code, and regulations and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

2.11 Committee. Committee means the committee appointed by the Board of Directors of the Company (or the appropriate committee of such board) to administer the Plan. If no designation is made, the Chief Executive Officer of the Company or his delegate shall have and exercise the powers of the Committee.

2.12 Company. Company means Chesapeake Energy Corporation.

2.13 Company Contribution. Company Contribution means a credit by a Participating Employer to a Participant's Account(s) in accordance with the provisions of Article V of the Plan. Company Contributions are credited at the sole discretion of the Participating Employer and the fact that a Company Contribution is credited in one year shall not obligate the Participating Employer to continue to make such Company Contribution in subsequent years. Unless the context clearly indicates otherwise, a reference to Company Contribution shall include Earnings attributable to such contribution.

2.14 Company Stock. Company Stock means phantom shares of common stock issued by the Company.

2.15 Compensation. Compensation means a Participant's base salary, bonus, commission, Director fees, and such other cash or equity-based compensation (if any) approved by the Committee as Compensation that may be deferred under this Plan. Compensation shall not include any compensation that has been previously deferred under this Plan or any other arrangement subject to Code Section 409A.

2.16 Compensation Deferral Agreement. Compensation Deferral Agreement means an agreement between a Participant and a Participating Employer that specifies (i) the amount of each component of Compensation that the Participant has elected to defer to the Plan in accordance with the provisions of Article IV, and (ii) the Payment Schedule applicable to one or more Accounts. The Committee may permit different deferral amounts for each component of Compensation and may establish a minimum or maximum deferral amount for each such component. Unless otherwise specified by the Committee in the Compensation Deferral Agreement, Participants may defer up to 75% of their base salary and up to 100% of other types of Compensation for a Plan Year. A Compensation Deferral Agreement may also specify the investment allocation described in Section 8.4.

2.17 Death Benefit. Death Benefit means the benefit payable under the Plan to a Participant's Beneficiary(ies) upon the Participant's death as provided in Section 6.1 of the Plan.

2.18 Deferral. Deferral means a credit to a Participant's Account(s) that records that portion of the Participant's Compensation that the Participant has elected to defer to the Plan in accordance with the provisions of Article IV. Unless the context of the Plan clearly indicates otherwise, a reference to Deferrals includes Earnings attributable to such Deferrals.

Deferrals shall be calculated with respect to the gross cash Compensation payable to the Participant prior to any deductions or withholdings, but shall be reduced by the Committee as necessary so that it does not exceed 100% of the cash Compensation of the Participant remaining after deduction of all required income and employment taxes, 401(k) and other employee benefit deductions, and other deductions required by law. Changes to payroll withholdings that affect the amount of Compensation being deferred to the Plan shall be allowed only to the extent permissible under Code Section 409A.

2.19 Director. Director means a member of the Board of Directors of the Company.

2.20 Disability Benefit. Disability Benefit means the benefit payable under the Plan to a Participant in the event such Participant is determined to be Disabled.

2.21 Disabled. Disabled means that a Participant is, by reason of any medically-determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, (i) unable to engage in any substantial gainful activity, or (ii) receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant's employer. The Committee shall determine whether a Participant is Disabled in accordance with Code Section 409A provided, however, that a Participant shall be deemed to be Disabled if determined to be totally disabled by the Social Security Administration or the Railroad Retirement Board. Notwithstanding anything to the contrary herein, Disability with respect to a Grandfathered Account means a physical or mental disability as a result of which, at least 180 days after commencement of such disability, the Participant is determined, by a physician selected by the Company and acceptable to the Participant or the Participant's legal representative, to be totally and permanently disabled.

2.22 Earnings. Earnings means an adjustment to the value of an Account in accordance with Article VIII.

2.23 Effective Date. Effective Date means January 1, 2008.

2.24 Eligible Employee. Eligible Employee means, for a Plan Year, a member of a "select group of management or highly compensated employees" of a Participating Employer within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, as determined by the Committee from time to time in its sole discretion, who has been designated by the Committee as eligible to participate in the Plan. The Committee may in its discretion establish criteria to use in determining which Employees are Eligible Employees, which criteria may include income level, period of employment, participation in other plans, or such other criteria as it may deem appropriate. Any criteria established may be described on an Exhibit A to the Plan, and such criteria can be amended from time to time without formal amendment of the Plan.

2.25 Employee. Employee means a common-law employee of an Employer.

2.26 Employer. Employer means, with respect to Employees it employs, the Company and each Affiliate.

2.27 ERISA. ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.28 Fiscal Year Compensation. Fiscal Year Compensation means Compensation earned during one or more consecutive fiscal years of a Participating Employer, all of which is paid after the last day of such fiscal year or years.

2.29 Grandfathered Account. Grandfathered Account means amounts deferred under the Prior Plans prior to January 1, 2005 that were vested as of December 31, 2004.

2.30 Participant. Participant means an Eligible Employee or a Director who has received notification of his or her eligibility to defer Compensation under the Plan under Section 3.1 and any other person with an Account Balance greater than zero, regardless of whether such individual continues to be an Eligible Employee or a Director. A Participant's continued participation in the Plan shall be governed by Section 3.2 of the Plan.

2.31 Participating Employer. Participating Employer means the Company and each Adopting Employer.

2.32 Payment Schedule. Payment Schedule means the date as of which payment of an Account under the Plan will commence and the form in which payment of such Account will be made.

2.33 Performance-Based Compensation. Performance-Based Compensation means Compensation where the amount of, or entitlement to, the Compensation is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least twelve consecutive months. Organizational or individual performance criteria are considered pre-established if established in writing by not later than ninety (90) days after the commencement of the period of service to which the criteria relate, provided that the outcome is substantially uncertain at the time the criteria are established. The determination of whether Compensation qualifies as "Performance-Based Compensation" will be made in accordance with Treas. Reg. Section 1.409A-1(e) and subsequent guidance.

2.34 Plan. Generally, the term Plan means the "Chesapeake Energy Corporation Amended and Restated Deferred Compensation Plan" as documented herein and as may be amended from time to time hereafter. However, to the extent permitted or required under Code Section 409A, the term Plan may in the appropriate context also mean a portion of the Plan that is treated as a single plan under Treas. Reg. Section 1.409A-1(c), or the Plan or portion of the Plan and any other nonqualified deferred compensation plan or portion thereof that is treated as a single plan under such section.

2.35 Plan Year. Plan Year means January 1 through December 31.

2.36 Qualified Plan. Qualified Plan means the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan.

2.37 Retirement. Retirement means a Participant's Separation from Service after attainment of age fifty-five (55) and completion of ten (10) Years of Service.

2.38 Retirement Benefit. Retirement Benefit means the benefit payable to a Participant under the Plan following the Retirement of the Participant.

2.39 Retirement/Termination Account. Retirement/Termination Account means an Account established by the Committee to record the amounts payable to a Participant that have not been allocated to a Specified Date Account. Unless the Participant has established a Specified Date Account, all Deferrals and Company Contributions shall be allocated to a Retirement/Termination Account on behalf of the Participant.

2.40 Separation from Service. An Employee incurs a Separation from Service upon termination of employment with the Employer. A Director incurs a Separation from Service upon the expiration of all contracts with the Employer, provided the contractual relationship has in good faith been completely terminated. Whether a Separation from Service has occurred shall be determined by the Committee in accordance with Code Section 409A.

Except in the case of an Employee on a bona fide leave of absence as provided below, an Employee is deemed to have incurred a Separation from Service if the Employer and the Employee reasonably anticipated that the level of services to be performed by the Employee after a date certain would be reduced to 20% or less of the average services rendered by the Employee during the immediately preceding 36-month period (or the total period of employment, if less than 36 months), disregarding periods during which the Employee was on a bona fide leave of absence.

An Employee who is absent from work due to military leave, sick leave, or other bona fide leave of absence shall incur a Separation from Service on the first date immediately following the later of (i) the six-month anniversary of the commencement of the leave or (ii) the expiration of the Employee's right, if any, to reemployment under statute or contract.

If a Participant is both a Director and an Employee, the services provided as a Director shall be disregarded in determining whether there has been a Separation from Service as an Employee, and the services provided as an Employee shall be disregarded in determining whether there has been a Separation from Service as a Director, provided the portion of the Plan in which the Participant participates as a Director is substantially similar to arrangements covering non-Employee Directors.

For purposes of determining whether a Separation from Service has occurred, the Employer means the Employer as defined in Section 2.26 of the Plan, except that for purposes of determining whether another organization is an Affiliate of the Company, common ownership of at least 50% shall be determinative.

The Committee specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to a Participant providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction. Such determination shall be made in accordance with the requirements of Code Section 409A.

2.41 Specified Date Account. A Specified Date Account means an Account established pursuant to Section 4.3 that will be paid (or that will commence to be paid) at a future date as specified in the Participant's Compensation Deferral Agreement. Unless otherwise determined by the Committee, a Participant may maintain no more than five (5) Specified Date Accounts. A Specified Date Account may be identified in enrollment materials as an "In-Service Account".

2.42 Specified Date Benefit. Specified Date Benefit means the benefit payable to a Participant under the Plan in accordance with Section 6.1(c).

2.43 Specified Employee. Specified Employee means an Employee who, as of the date of his Separation from Service, is a "key employee" of the Company or any Affiliate, any stock of which is actively traded on an established securities market or otherwise. An Employee is a key employee if he meets the requirements of Code Section 416(i)(1)(A)(i), (ii), or (iii) (applied in accordance with applicable regulations thereunder and without regard to Code Section 416(i)(5)) at any time during the 12-month period ending on the Specified Employee Identification Date. Such Employee shall be treated as a key employee for the entire 12-month period beginning on the Specified Employee Effective Date.

For purposes of determining whether an Employee is a Specified Employee, the compensation of the Employee shall be determined in accordance with the definition of compensation provided under Treas. Reg. Section 1.415(c)-2(d)(3) (wages within the meaning of Code section 3401(a) for purposes of income tax withholding at the source, plus amounts excludible from gross income under section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k) or 457(b), without regard to rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed); provided, however, that, with respect to a nonresident alien who is not a Participant in the Plan, compensation shall not include compensation that is not includible in the gross income of the Employee under Code Sections 872, 893, 894, 911, 931 and 933, provided such compensation is not effectively connected with the conduct of a trade or business within the United States.

Notwithstanding anything in this paragraph to the contrary, (i) if a different definition of compensation has been designated by the Company with respect to another nonqualified deferred compensation plan in which a key employee participates, the definition of compensation shall be the definition provided in Treas. Reg. Section 1.409A-1(i)(2), and (ii) the Company may through action that is legally binding with respect to all nonqualified deferred compensation plans maintained by the Company, elect to use a different definition of compensation.

In the event of corporate transactions described in Treas. Reg. Section 1.409A-1(i)6), the identification of Specified Employees shall be determined in accordance with the default rules described therein, unless the Employer elects to utilize the available alternative methodology through designations made within the timeframes specified therein.

2.44 Specified Employee Identification Date. Specified Employee Identification Date means December 31, unless the Employer has elected a different date through action that is legally binding with respect to all nonqualified deferred compensation plans maintained by the Employer.

2.45 Specified Employee Effective Date. Specified Employee Effective Date means the first day of the fourth month following the Specified Employee Identification Date, or such earlier date as is selected by the Committee.

2.46 Substantial Risk of Forfeiture. Substantial Risk of Forfeiture shall have the meaning specified in Treas. Reg. Section 1.409A-1(d).

2.47 Termination Benefit. Termination Benefit means the benefit payable to a Participant under the Plan following the Participant's Separation from Service prior to Retirement.

2.48 Unforeseeable Emergency. An Unforeseeable Emergency means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's dependent (as defined in Code section 152, without regard to section 152(b)(1), (b)(2), and (d)(1)(B)), or a Beneficiary; loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The types of events which may qualify as an Unforeseeable Emergency may be limited by the Committee.

2.49 Valuation Date. Valuation Date shall mean each Business Day.

2.50 Year of Service. A Year of Service shall mean each 12-month period of continuous service with the Employer.

ARTICLE III

Eligibility and Participation

3.1 Eligibility and Participation. An Eligible Employee or a Director becomes a Participant upon the earlier to occur of (i) a credit of Company Contributions under Article V or (ii) receipt of notification of eligibility to participate.

3.2 Duration. A Participant shall be eligible to defer Compensation and receive allocations of Company Contributions, subject to the terms of the Plan, for as long as such Participant remains an Eligible Employee or a Director. A Participant who is no longer an Eligible Employee or a Director but has not Separated from Service may not defer Compensation under the Plan but may otherwise exercise all of the rights of a Participant under the Plan with respect to his or her Account(s). On and after a Separation from Service, a Participant shall remain a Participant as long as his or her Account Balance is greater than zero and during such time may continue to make allocation elections as provided in Section 8.4. An individual shall cease being a Participant in the Plan when all benefits under the Plan to which he or she is entitled have been paid

ARTICLE IV

Deferrals

4.1 Deferral Elections, Generally.

(a) A Participant shall submit a Compensation Deferral Agreement during the enrollment periods established by the Committee and in the manner specified by the Committee, but in any event, in accordance with Section 4.2. A Compensation Deferral Agreement that is not timely filed with respect to a service period or component of Compensation shall be considered void and shall have no effect with respect to such service period or Compensation. The Committee may modify any Compensation Deferral Agreement prior to the date the election becomes irrevocable under the rules of Section 4.2.

(b) The Participant may elect on the Compensation Deferral Agreement to defer (i) an amount of Compensation equal to the percentage of Compensation he has elected to defer to the Qualified Plan reduced by the maximum amount he is permitted to defer to such plan, and/or (ii) additional amounts of Compensation that are independent of his deferral election under the Qualified Plan. The deferral election under the Qualified Plan shall be irrevocable for a year to the extent the Participant makes an election of the type described in (i) above.

(c) The Participant shall specify on his or her Compensation Deferral Agreement whether to allocate Deferrals to a Retirement/Termination Account or to a Specified Date Account. If no designation is made, all Deferrals shall be allocated to the Retirement/Termination Account. A Participant may also specify in his or her Compensation Deferral Agreement the Payment Schedule applicable to his or her Plan Accounts. If the Payment Schedule is not specified in a Compensation Deferral Agreement, the Payment Schedule shall be the Payment Schedule specified in Section 6.2.

(d) Notwithstanding any other provision of this Plan, a Director may not establish a Specified Date Account or allocate Deferrals to an existing Specified Date Account. All Deferrals by a Director shall be allocated to such Director's Retirement/Termination Account.

4.2 Timing Requirements for Compensation Deferral Agreements.

(a) *First Year of Eligibility.* In the case of the first year in which an Eligible Employee or a Director becomes eligible to participate in the Plan, he has up to 30 days following his initial eligibility to submit a Compensation Deferral Agreement with respect to Compensation to be earned during such year. The Compensation Deferral Agreement described in this paragraph becomes irrevocable upon the end of such 30-day period. The determination of whether an Eligible Employee or a Director may file a Compensation Deferral Agreement under this paragraph shall be determined in accordance with the rules of Code Section 409A, including the provisions of Treas. Reg. Section 1.409A-2(a)(7).

A Compensation Deferral Agreement filed under this paragraph applies to Compensation earned on and after the date the Compensation Deferral Agreement becomes irrevocable.

(b) *Prior Year Election.* Except as otherwise provided in this Section 4.2, Participants may defer Compensation by filing a Compensation Deferral Agreement no later than December 31 of the year prior to the year in which the Compensation to be deferred is earned. A Compensation Deferral Agreement described in this paragraph shall become irrevocable with respect to such Compensation as of January 1 of the year in which such Compensation is earned.

(c) *Performance-Based Compensation.* Participants may file a Compensation Deferral Agreement with respect to Performance-Based Compensation no later than the date that is six months before the end of the performance period, provided that:

(i) the Participant performs services continuously from the later of the beginning of the performance period or the date the criteria are established through the date the Compensation Deferral Agreement is submitted; and

(ii) the Compensation is not readily ascertainable as of the date the Compensation Deferral Agreement is filed.

A Compensation Deferral Agreement becomes irrevocable with respect to Performance-Based Compensation as of the day immediately following the latest date for filing such election. Any election to defer Performance-Based Compensation that is made in accordance with this paragraph and that becomes payable as a result of the Participant's death or disability (as defined in Treas.

Reg. Section 1.409A-1(e)) or upon a Change in Control (as defined in Treas. Reg. Section 1.409A-3(i)(5)) prior to the satisfaction of the performance criteria, will be void.

(d) *Fiscal Year Compensation.* A Participant may defer Fiscal Year Compensation by filing a Compensation Deferral Agreement prior to the first day of the fiscal year or years in which such Fiscal Year Compensation is earned. The Compensation Deferral Agreement described in this paragraph becomes irrevocable on the first day of the fiscal year or years to which it applies.

(e) *Short-Term Deferrals.* Compensation that meets the definition of a "short-term deferral" described in Treas. Reg. Section 1.409A-1(b)(4) may be deferred in accordance with the rules of Article VII, applied as if the date the Substantial Risk of Forfeiture lapses is the date payments were originally scheduled to commence, provided, however, that the provisions of Section 7.3 shall not apply to payments attributable to a Change in Control (as defined in Treas. Reg. Section 1.409A-3(i)(5)).

(f) *Certain Forfeitable Rights.* With respect to a legally binding right to a payment in a subsequent year that is subject to a forfeiture condition requiring the Participant's continued services for a period of at least twelve months from the date the Participant obtains the legally binding right, an election to defer such Compensation may be made on or before the 30th day after the Participant obtains the legally binding right to the Compensation, provided that the election is made at least twelve months in advance of the earliest date at which the forfeiture condition could lapse. The Compensation Deferral Agreement described in this paragraph becomes irrevocable after such 30th day. If the forfeiture condition applicable to the payment lapses before the end of the required service period as a result of the Participant's death or disability (as defined in Treas. Reg. Section 1.409A-3(i)(4)) or upon a Change in Control (as defined in Treas. Reg. Section 1.409A-3(i)(5)), the Compensation Deferral Agreement will be void unless it would be considered timely under another rule described in this Section.

(g) *Company Awards.* Participating Employers may unilaterally provide for deferrals of Company awards prior to the date of such awards. Deferrals of Company awards (such as sign-on, retention, or severance pay) may be negotiated with a Participant prior to the date the Participant has a legally binding right to such Compensation.

(h) *"Evergreen" Deferral Elections.* The Committee, in its discretion, may provide in the Compensation Deferral Agreement that such Compensation Deferral Agreement will continue in effect for each subsequent year or performance period. Such "evergreen" Compensation Deferral Agreements will become effective with respect to an item of Compensation on the date such election becomes irrevocable under this Section 4.2. An evergreen Compensation Deferral Agreement may be terminated or modified prospectively with respect to Compensation for which such election remains revocable under this Section 4.2. A Participant whose Compensation Deferral Agreement is cancelled in accordance with Section 4.6 will be required to file a new Compensation Deferral Agreement under this Article IV in order to recommence Deferrals under the Plan.

4.3 Allocation of Deferrals. Except as provided in Section 4.1(c), a Compensation Deferral Agreement may allocate Deferrals to one or more Specified Date Accounts and/or to the Retirement/Termination Account. The Committee may, in its discretion, establish a minimum deferral period for Specified Date Accounts (for example, the third Plan Year following the year Compensation subject to the Compensation Deferral Agreement is earned).

4.4 Deductions from Pay. The Committee has the authority to determine the payroll practices under which any component of Compensation subject to a Compensation Deferral Agreement will be deducted from a Participant's Compensation.

4.5 Vesting. Participant Deferrals shall be 100% vested at all times.

4.6 Cancellation of Deferrals. The Committee may cancel a Participant's Deferrals (i) for the balance of the Plan Year in which an Unforeseeable Emergency payment occurs and for the following Plan Year, (ii) if the Participant receives a hardship distribution under the Employer's qualified 401(k) plan, through the end of the Plan Year in which the six-month anniversary of the hardship distribution falls, and (iii) during periods in which the Participant is unable to perform the duties of his or her position or any substantially similar position due to a mental or physical impairment that can be expected to result in death or last for a continuous period of at least six months, provided cancellation occurs by the later of the end of the taxable year of the Participant or the 15th day of the third month following the date the Participant incurs the disability (as defined in this paragraph (iii)).

ARTICLE V

Company Contributions

5.1 Company Make-Up Contribution. Provided the Participating Employer has made the maximum matching contribution to the Qualified Plan that is permissible under Section 401(m) of the Code, a Participating Employer will credit to the Retirement/Termination Account of each eligible Participant a Company Make-Up Contribution in an amount (if any) equal to (a) minus (b) below:

(a) 100% of a Participant's Deferrals into this Plan that do not exceed 15% of such Participant's base salary and bonus (or such other percentage as determined by the Committee in its discretion);

(b) The actual amount of any Company matching contributions to its qualified 401(k) plan for such Participant during the Plan Year.

To be an eligible Participant for purposes of this Section 5.1, the Participant must (i) be a Participant in the Qualified Plan, (b) have made the maximum contribution allowable under the Qualified Plan and (c) have experienced a reduction in the benefits he would have received from the Qualified Plan as a result of the limitations of Section 401(a)(17) of the Code.

5.2 Discretionary Company Contributions. The Participating Employer may, from time to time in its sole and absolute discretion, credit Company Contributions to any Participant in any amount determined by the Participating Employer. Such contributions will be credited to a Participant's Retirement/Termination Account.

5.3 Vesting. Company Make-Up Contributions described in Section 5.1, above, and the Earnings thereon, shall vest in accordance with the following vesting schedule on a "rolling vesting" basis (each Company Make-Up Contribution has its own vesting schedule):

Years of Service Since the Date of the Company Make-Up Contribution	Percent Vested
Less than 1	0%
At least 1 but fewer than 2	25%
At least 2 but fewer than 3	50%
At least 3 but fewer than 4	75%
4 or more	100%

Discretionary Company Contributions described in Section 5.2, above, and the Earnings thereon, shall vest in accordance with the vesting schedule(s) established by the Committee at the time that the Discretionary Company Contribution is made.

All Company Contributions shall become 100% vested upon the occurrence of a Change in Control. In addition, the Committee may at any time in its sole discretion increase a Participant's vested interest in a Company Contribution, for example, if the Participant dies while actively employed, becomes Disabled, or Retires. The portion of a Participant's Accounts that remains unvested upon his or her Separation from Service after the application of the terms of this Section 5.3 shall be forfeited.

Solely for purposes of this Section 5.3, Change in Control shall mean the occurrence of any of the following:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that the following acquisitions by a Person will not constitute a Change of Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph (iii);

(ii) the individuals who, as of the date hereof, constitute the board of directors (the “Incumbent Board”) cease for any reason to constitute at least a majority of the board of directors. Any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board as of the date hereof, but any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board will not be deemed a member of the Incumbent Board as of the date hereof;

(iii) the consummation of a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), unless following such Business Combination: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) the approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

ARTICLE VI

Benefits

6.1 Benefits, Generally. A Participant shall be entitled to the following benefits under the Plan:

(a) *Retirement Benefit.* Upon the Participant's Separation from Service due to Retirement, he or she shall be entitled to a Retirement Benefit. The Retirement Benefit shall be equal to the vested portion of the Retirement/Termination Account and (i) if the Retirement/Termination Account is payable in a lump sum, the unpaid balances of any Specified Date Accounts, or (ii) if the Retirement/Termination Account is payable in installments, the vested portion of any Specified Date Accounts with respect to which payments have not yet commenced. The Retirement Benefit shall be based on the value of that Account as of the end of the month in which Separation from Service occurs. Payment of the Retirement Benefit will be made or begin on the first day of the month following the month in which Separation from Service occurs, provided, however, that with respect to a Participant who is a Specified Employee as of the date such Participant incurs a Separation from Service, payment will be made or begin on the first day of the seventh month following the month in which such Separation from Service occurs. If the Retirement Benefit is to be paid in the form of installments, any subsequent installment payments to a Specified Employee will be paid on the anniversary of the date the initial installment was made.

(b) *Termination Benefit.* Upon the Participant's Separation from Service for reasons other than death, Disability or Retirement, he or she shall be entitled to a Termination Benefit. The Termination Benefit shall be equal to the vested portion of the Retirement/Termination Account and the vested portion of any unpaid balances in any Specified Date Accounts. The Termination Benefit shall be based on the value of the Retirement/Termination Account as of the end of the month in which Separation from Service occurs. Payment of the Termination Benefit will be made or begin on the first day of the month following the month in which Separation from Service occurs, provided, however, that with respect to a Participant who is a Specified Employee as of the date such Participant incurs a Separation from Service, payment will be made or begin on the first day of the seventh month following the month in which such Separation from Service occurs.

(c) *Specified Date Benefit.* If the Participant has established one or more Specified Date Accounts, he or she shall be entitled to a Specified Date Benefit with respect to each such Specified Date Account. The Specified Date Benefit shall be equal to the vested portion of the Specified Date Account, based on the value of that Account as of the end of the month designated by the Participant at the time the Account was established. Payment of the Specified Date Benefit will be made or begin on the first day of the month following the designated month.

(d) *Disability Benefit.* Upon a determination by the Committee that a Participant is Disabled, he or she shall be entitled to a Disability Benefit. The Disability Benefit shall be equal to the vested portion of the Retirement/Termination Account and (i) if the Retirement/Termination Account is payable in a lump sum, the unpaid balances of any Specified Date Accounts, or (ii) if the Retirement/Termination Account is payable in installments, the vested portion of any Specified Date Accounts with respect to which payments have not yet commenced. The Disability Benefit shall be based on the value of the Accounts as of the last day of the month in which Disability occurs and will be paid on the first day of the following month.

(e) *Death Benefit.* In the event of the Participant's death, his or her designated Beneficiary(ies) shall be entitled to a Death Benefit. The Death Benefit shall be equal to the vested portion of the Retirement/Termination Account and the vested portion of any unpaid balances in any Specified Date Accounts. The Death Benefit shall be based on the value of the Accounts as of the end of the month in which death occurred, with payment made on or after the first day of the following month.

(f) *Unforeseeable Emergency Payments.* A Participant who experiences an Unforeseeable Emergency may submit a written request to the Committee to receive payment of all or any portion of his or her Deferrals. The minimum withdrawal is the lesser of $25,000 or 100% of the Deferrals credited to the Participant's Account. Whether a Participant or Beneficiary is faced with an Unforeseeable Emergency permitting an emergency payment shall be determined by the Committee based on the relevant facts and circumstances of each case, but, in any case, a distribution on account of Unforeseeable Emergency may not be made to the extent that such emergency is or may be reimbursed through insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of Deferrals under this Plan. If an emergency payment is approved by the Committee, the amount of the payment shall not exceed the amount reasonably necessary to satisfy the need, taking into account the additional compensation that is available to the Participant as the result of cancellation of deferrals to the Plan, including amounts necessary to pay any taxes or penalties that the Participant reasonably anticipates will result from the payment. The amount of the emergency payment shall be subtracted first from the vested portion of the Participant's Retirement/Termination Account until depleted and then from the vested Specified Date Accounts, beginning with the Specified Date Account with the latest payment commencement date. Emergency payments shall be paid in a single lump sum within the 90-day period following the date the payment is approved by the Committee.

(g) *Voluntary Withdrawal of Grandfathered Amounts*. A Participant may elect at any time to voluntarily withdraw not less than 25% of any Deferrals credited to his or her Grandfathered Account. If such a withdrawal is requested, the Participant (i) shall forfeit an amount equal to 10% of the amount requested, (ii) shall not be permitted to make Deferrals to the Plan in the Plan Year following the Plan Year in which the withdrawal is made, and (iii) shall forfeit any Company Discretionary Contributions (whether vested or unvested) attributable to the amounts so distributed.

6.2 <u>Form of Payment.</u>

(a) *Retirement Benefit.* A Participant who is entitled to receive a Retirement Benefit shall receive payment of such benefit in a single lump sum, unless the Participant elects on his or her initial Compensation Deferral Agreement to have such benefit paid in an alternative form of payment. Alternative forms of payment include (i) a lump sum payment between 0% and 100% of the balance in the Retirement/Termination Account; and (ii) any remaining Account Balance payable in a series of substantially equal annual installments from two to twenty years. A Participant who is a Director shall receive payment of any Retirement Benefit in a single lump sum.

(b) *Termination Benefit.* A Participant who is entitled to receive a Termination Benefit shall receive payment of such benefit in a single lump sum.

(c) *Specified Date Benefit.* The Specified Date Benefit shall be paid in a single lump sum, unless the Participant elects on the Compensation Deferral Agreement with which the account was established to have the Specified Date Account paid in substantially equal annual or quarterly installments over a period of two to ten years, as elected by the Participant.

Notwithstanding any election of a form of payment by the Participant, upon a Separation from Service the unpaid balance of a Specified Date Account with respect to which payments have not commenced shall be paid in accordance with the form of payment applicable to the Retirement, Termination, Disability or Death Benefit, as applicable. If such benefit is payable in a single lump sum, the unpaid balance of all Specified Date Accounts (including those in pay status) will be paid in a lump sum.

Any Specified Date Accounts credited to a Grandfathered Account shall, upon an earlier termination or Disability, be paid in accordance with the Payment Schedule applicable to the Retirement Benefit, Termination Benefit or Disability Benefit that is payable from such Grandfathered Account.

(d) *Disability Benefit.* A Participant who becomes entitled to receive a Disability Benefit prior to eligibility for Retirement shall receive payment of such benefit in a single lump sum. A Participant who becomes entitled to receive a Disability Benefit after eligibility for Retirement shall receive payment of such benefit in a single lump sum, unless the Participant elects on his or her initial Compensation Deferral Agreement to have such benefit paid in an alternative form of payment. Alternative forms of payment include (i) a lump sum payment between 0% and 100% of the balance in the Retirement/Termination Account; and (ii) any remaining Account Balance payable in a series of substantially equal annual installments from two to twenty years. A Participant who is a Director shall receive payment of any Disability Benefit in a single lump sum.

(e) *Death Benefit.* A designated Beneficiary who is entitled to receive a Death Benefit shall receive payment of such benefit in a single lump sum.

(f) *Change in Control.* A Participant will receive a single lump sum payment equal to the unpaid balance of all of his or her Accounts if a Separation from Service occurs within 24 months following a Change in Control. In addition to the foregoing, upon a Change in Control, a Participant who has incurred a Separation from Service prior to the Change in Control, and any Beneficiary of such Participant who is receiving or is scheduled to receive payments, will receive the balance of all unpaid Accounts in a single lump sum. Accounts will be valued as of the last day of the month following the Change in Control and will be paid within 90 days of said Change in Control.

(g) *Small Account Balances.* The Committee may, in its sole discretion which shall be evidenced in writing no later than the date of payment, elect to pay the value of the Participant's Accounts upon a Separation from Service in a single lump sum if the balance of such Accounts is not greater than the applicable dollar amount under Code Section 402(g)(1)(B), provided the payment represents the complete liquidation of the Participant's interest in the Plan.

(h) *Rules Applicable to Installment Payments.* If a Payment Schedule specifies installment payments, annual payments will be made beginning as of the payment commencement date for such installments and shall continue on each anniversary thereof until the number of installment payments specified in the Payment Schedule has been paid. The amount of each installment payment shall be determined by dividing (a) by (b), where (a) equals the Account Balance as of the Valuation Date and (b) equals the remaining number of installment payments.

For purposes of Article VII, installment payments will be treated as a single form of payment. If a lump sum equal to less than 100% of the Retirement/Termination Account is paid, the payment commencement date for the installment form of payment will be the first anniversary of the payment of the lump sum.

(i) *Payments from Grandfathered Accounts.* Notwithstanding anything to the contrary in this Article VI, the portion of a Retirement Benefit or Disability Benefit credited to a Grandfathered Account (i) shall, if the applicable Account Balance is less than $50,000, be paid in a lump sum, and (ii) shall, if the applicable Account Balance is at least $50,000, be paid commencing within 30 days of the calendar quarter following the one-year anniversary of the Participant's date of termination or date of Disability or, if the Participant has elected a lump sum payment, shall be paid 13 months following the Participant's date of termination or date of Disability. Further, the portion of a Specified Date Benefit credited to a Grandfathered Account shall be paid in a lump sum if the applicable Account Balance is less than $25,000.

6.3 Acceleration of or Delay in Payments. The Committee, in its sole and absolute discretion, may elect to accelerate the time or form of payment of a benefit owed to the Participant hereunder, provided such acceleration is permitted under Treas. Reg. Section 1.409A-3(j)(4). The Committee may also, in its sole and absolute discretion, delay the time for payment of a benefit owed to the Participant hereunder, to the extent permitted under Treas. Reg. Section 1.409A-2(b)(7). Notwithstanding anything to the contrary herein, no payments shall be made from the Plan pursuant to a domestic relations order.

ARTICLE VII

Modifications to Payment Schedules

7.1 Participant's Right to Modify. A Participant may modify any or all of the alternative Payment Schedules with respect to an Account, consistent with the permissible Payment Schedules available under the Plan, provided such modification complies with the requirements of this Article VII.

7.2 Time of Election. The date on which a modification election is submitted to the Committee must be at least twelve months prior to the date on which payment is scheduled to commence under the Payment Schedule in effect prior to the modification.

7.3 Date of Payment under Modified Payment Schedule. Except with respect to modifications that relate to the payment of a Death Benefit or a Disability Benefit, the date payments are to commence under the modified Payment Schedule must be no earlier than five years after the date payment would have commenced under the original Payment Schedule. Under no circumstances may a modification election result in an acceleration of payments in violation of Code Section 409A.

7.4 Effective Date. A modification election submitted in accordance with this Article VII is irrevocable upon receipt by the Committee and becomes effective 12 months after such date.

7.5 Effect on Accounts. An election to modify a Payment Schedule is specific to the Account or payment event to which it applies, and shall not be construed to affect the Payment Schedules of any other Accounts.

7.6 Modifications to Grandfathered Accounts. Notwithstanding the preceding provisions of this Article VII, a Participant may modify the form of payment in which a Retirement Benefit or Disability Benefit applicable to a Grandfathered Account is payable only if the Committee, in its sole discretion, determines the Participant to be subject to special circumstances, and only if the change is submitted before the 12-month period prior to the date payment was scheduled to commence. A Participant may also postpone payment of a Specified Date Benefit applicable to a Grandfathered Account to a date at least one year later than the previously scheduled payment date if a request is filed with the Committee at least one year prior to the date payments are scheduled to begin.

ARTICLE VIII

Valuation of Account Balances; Investments

8.1 Valuation. Deferrals shall be credited to appropriate Accounts on the date such Compensation would have been paid to the Participant absent the Compensation Deferral Agreement. Company Contributions shall be credited to the Retirement/Termination Account at the times determined by the Committee. Valuation of Accounts shall be performed under procedures approved by the Committee.

8.2 Earnings Credit. Each Account will be credited with Earnings on each Business Day, based upon the Participant's investment allocation among a menu of investment options selected in advance by the Committee, in accordance with the provisions of this Article VIII ("investment allocation").

8.3 Investment Options. Investment options will be determined by the Committee. The Committee, in its sole discretion, shall be permitted to add or remove investment options from the Plan menu from time to time, provided that any such additions or removals of investment options shall not be effective with respect to any period prior to the effective date of such change.

8.4 Investment Allocations. A Participant's investment allocation constitutes a deemed, not actual, investment among the investment options comprising the investment menu. At no time shall a Participant have any real or beneficial ownership in any investment option included in the investment menu, nor shall the Participating Employer or any trustee acting on its behalf have any obligation to purchase actual securities as a result of a Participant's investment allocation. A Participant's investment allocation shall be used solely for purposes of adjusting the value of a Participant's Account Balances.

A Participant shall specify an investment allocation for each of his Accounts in accordance with procedures established by the Committee. Allocation among the investment options must be designated in increments of 1%. The Participant's investment allocation will become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Committee, the next Business Day.

A Participant may change an investment allocation on any Business Day, both with respect to future credits to the Plan and with respect to existing Account Balances, in accordance with procedures adopted by the Committee. Changes shall become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Committee, the next Business Day, and shall be applied prospectively.

8.5 Unallocated Deferrals and Accounts. If the Participant fails to make an investment allocation with respect to an Account, such Account shall be invested in an investment option, the primary objective of which is the preservation of capital, as determined by the Committee.

8.6 Company Stock. The Committee may include Company Stock as one of the investment options described in Section 8.3. The Committee may, in its sole discretion, limit the investment allocation of Company Contributions to Company Stock. The Committee may also require Deferrals consisting of equity-based Compensation to be allocated to Company Stock.

8.7 Diversification. A Participant may not re-allocate an investment in Company Stock into another investment option. The portion of an Account that is invested in Company Stock will be paid under Article VI in the form of whole shares of Company Stock.

8.8 Effect on Installment Payments. If an Account is to be paid in installments, the Committee will determine the portion of each payment that will be paid in the form of Company Stock.

8.9 Dividend Equivalents. Dividend equivalents with respect to Company Stock will be credited to the applicable Accounts in the form of additional shares or units of Company Stock.

ARTICLE IX

Administration

9.1 Plan Administration. This Plan shall be administered by the Committee which shall have discretionary authority to make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Plan and to utilize its discretion to decide or resolve any and all questions, including but not limited to eligibility for benefits and interpretations of this Plan and its terms, as may arise in connection with the Plan. Claims for benefits shall be filed with the Committee and resolved in accordance with the claims procedures in Article XII.

9.2 Administration Upon Change in Control. Upon a Change in Control, the Committee, as constituted immediately prior to such Change in Control, shall continue to act as the Committee. The individual who was the Chief Executive Officer of the Company (or if such person is unable or unwilling to act, the next highest ranking officer) prior to the Change in Control shall have the authority (but shall not be obligated) to appoint an independent third party to act as the Committee.

Upon such Change in Control, the Company may not remove the Committee, unless 2/3rds of the members of the Board of Directors of the Company and a majority of Participants and Beneficiaries with Account Balances consent to the removal and replacement Committee. Notwithstanding the foregoing, neither the Committee nor the officer described above shall have authority to direct investment of trust assets under any rabbi trust described in Section 11.2.

The Participating Employer shall, with respect to the Committee identified under this Section, (i) pay all reasonable expenses and fees of the Committee, (ii) indemnify the Committee (including individuals serving as Committee) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Committee hereunder, except with respect to matters resulting from the Committee's gross negligence or willful misconduct and (iii) supply full and timely information to the Committee on all matters related to the Plan, any rabbi trust, Participants, Beneficiaries and Accounts as the Committee may reasonably require.

9.3 Withholding. The Participating Employer shall have the right to withhold from any payment due under the Plan (or with respect to any amounts credited to the Plan) any taxes required by law to be withheld in respect of such payment (or credit). Withholdings with respect to amounts credited to the Plan shall be deducted from Compensation that has not been deferred to the Plan.

9.4 Indemnification. The Participating Employers shall indemnify and hold harmless each employee, officer, director, agent or organization, to whom or to which are delegated duties, responsibilities, and authority under the Plan or otherwise with respect to administration of the Plan, including, without limitation, the Committee and its agents, against all claims, liabilities, fines and penalties, and all expenses reasonably incurred by or imposed upon him or it (including but not limited to reasonable attorney fees) which arise as a result of his or its actions or failure to act in connection with the operation and administration of the Plan to the extent lawfully allowable and to the extent that such claim, liability, fine, penalty, or expense is not paid for by liability insurance purchased or paid for by the Participating Employer. Notwithstanding the foregoing, the Participating Employer shall not indemnify any person or organization if his or its actions or failure to act are due to gross negligence or willful misconduct or for any such amount incurred through any settlement or compromise of any action unless the Participating Employer consents in writing to such settlement or compromise.

9.5 Delegation of Authority. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with legal counsel who shall be legal counsel to the Company.

9.6 Binding Decisions or Actions. The decision or action of the Committee in respect of any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations thereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

ARTICLE X

Amendment and Termination

10.1 Amendment and Termination. The Company may at any time and from time to time amend the Plan or may terminate the Plan as provided in this Article X. Each Participating Employer may also terminate its participation in the Plan.

10.2 Amendments. The Company, by action taken by its Board of Directors, may amend the Plan at any time and for any reason, provided that any such amendment shall not reduce the vested Account Balances of any Participant accrued as of the date of any such amendment or restatement (as if the Participant had incurred a voluntary Separation from Service on such date) or reduce any rights of a Participant under the Plan or other Plan features with respect to Deferrals made prior to the date of any such amendment or restatement without the consent of the Participant. The Board of Directors of the Company may delegate to the Committee the authority to amend the Plan without the consent of the Board of Directors for the purpose of (i) conforming the Plan to the requirements of law, (ii) facilitating the administration of the Plan, (iii) clarifying provisions based on the Committee's interpretation of the document and (iv) making such other amendments as the Board of Directors may authorize.

10.3 Termination. The Company, by action taken by its Board of Directors, may terminate the Plan and pay Participants and Beneficiaries their Account Balances in a single lump sum at any time, to the extent and in accordance with Treas. Reg. Section 1.409A-3(j)(4)(ix). If a Participating Employer terminates its participation in the Plan, the benefits of affected Employees shall be paid at the time provided in Article VI.

10.4 Accounts Taxable Under Code Section 409A. The Plan is intended to constitute a plan of deferred compensation that meets the requirements for deferral of income taxation under Code Section 409A. The Committee, pursuant to its authority to interpret the Plan, may sever from the Plan or any Compensation Deferral Agreement any provision or exercise of a right that otherwise would result in a violation of Code Section 409A.

ARTICLE XI

Informal Funding

11.1 General Assets. Obligations established under the terms of the Plan may be satisfied from the general funds of the Participating Employers, or a trust described in this Article XI. No Participant, spouse or Beneficiary shall have any right, title or interest whatever in assets of the Participating Employers. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Participating Employers and any Employee, spouse, or Beneficiary. To the extent that any person acquires a right to receive payments hereunder, such rights are no greater than the right of an unsecured general creditor of the Participating Employer.

11.2 Rabbi Trust. A Participating Employer may, in its sole discretion, establish a grantor trust, commonly known as a rabbi trust, as a vehicle for accumulating assets to pay benefits under the Plan. Payments under the Plan may be paid from the general assets of the Participating Employer or from the assets of any such rabbi trust. Payment from any such source shall reduce the obligation owed to the Participant or Beneficiary under the Plan.

ARTICLE XII

Claims

12.1 Filing a Claim. Any controversy or claim arising out of or relating to the Plan shall be filed in writing with the Committee which shall make all determinations concerning such claim. Any claim filed with the Committee and any decision by the Committee denying such claim shall be in writing and shall be delivered to the Participant or Beneficiary filing the claim (the "Claimant").

(a) *In General.* Notice of a denial of benefits (other than Disability benefits) will be provided within ninety (90) days of the Committee's receipt of the Claimant's claim for benefits. If the Committee determines that it needs additional time to review the claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial ninety (90) day period. The extension will not be more than ninety (90) days from the end of the initial ninety (90) day period and the notice of extension will explain the special circumstances that require the extension and the date by which the Committee expects to make a decision.

(b) *Disability Benefits.* Notice of denial of Disability benefits will be provided within forty-five (45) days of the Committee's receipt of the Claimant's claim for Disability benefits. If the Committee determines that it needs additional time to review the Disability claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial forty-five (45) day period. If the Committee determines that a decision cannot be made within the first extension period due to matters beyond the control of the Committee, the time period for making a determination may be further extended for an additional thirty (30) days. If such an additional extension is necessary, the Committee shall notify the Claimant prior to the expiration of the initial thirty (30) day extension. Any notice of extension shall indicate the circumstances necessitating the extension of time, the date by which the Committee expects to furnish a notice of decision, the specific standards on which such entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim and any additional information needed to resolve those issues. A Claimant will be provided a minimum of forty-five (45) days to submit any necessary additional information to the Committee. In the event that a thirty (30) day extension is necessary due to a Claimant's failure to submit information necessary to decide a claim, the period for furnishing a notice of decision shall be tolled from the date on which the notice of the extension is sent to the Claimant until the earlier of the date the Claimant responds to the request for additional information or the response deadline.

(c) *Contents of Notice.* If a claim for benefits is completely or partially denied, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language. The notice shall (i) cite the pertinent provisions of the Plan document and (ii) explain, where appropriate, how the Claimant can perfect the claim, including a description of any additional material or information necessary to complete the claim and why such material or information is necessary. The claim denial also shall include an explanation of the claims review procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse decision on review. In the case of a complete or partial denial of a Disability benefit claim, the notice shall provide a statement that the Committee will provide to the Claimant, upon request and free of charge, a copy of any internal rule, guideline, protocol, or other similar criterion that was relied upon in making the decision.

12.2 Appeal of Denied Claims. A Claimant whose claim has been completely or partially denied shall be entitled to appeal the claim denial by filing a written appeal with a committee designated to hear such appeals (the "Appeals Committee"). A Claimant who timely requests a review of the denied claim (or his or her authorized representative) may review, upon request and free of charge, copies of all documents, records and other information relevant to the denial and may submit written comments, documents, records and other information relevant to the claim to the Appeals Committee. All written comments, documents, records, and other information shall be considered "relevant" if the information (i) was relied upon in making a benefits determination,(ii) was submitted, considered or generated in the course of making a benefits decision regardless of whether it was relied upon to make the decision, or (iii) demonstrates compliance with administrative processes and safeguards established for making benefit decisions. The Appeals Committee may, in its sole discretion and if it deems appropriate or necessary, decide to hold a hearing with respect to the claim appeal.

(a) *In General.* Appeal of a denied benefits claim (other than a Disability benefits claim) must be filed in writing with the Appeals Committee no later than sixty (60) days after receipt of the written notification of such claim denial. The Appeals Committee shall make its decision regarding the merits of the denied claim within sixty (60) days following receipt of the appeal (or within one hundred and twenty (120) days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. The review will take into account comments, documents, records and other information submitted by the Claimant relating to the claim without regard to whether such information was submitted or considered in the initial benefit determination.

(b) *Disability Benefits.* Appeal of a denied Disability benefits claim must be filed in writing with the Appeals Committee no later than one hundred eighty (180) days after receipt of the written notification of such claim denial. The review shall be conducted by the Appeals Committee (exclusive of the person who made the initial adverse decision or such person's subordinate). In reviewing the appeal, the Appeals Committee shall (i) not afford deference to the initial denial of the claim, (ii) consult a medical professional who has appropriate training and experience in the field of medicine relating to the Claimant's disability and who was neither consulted as part of the initial denial nor is the subordinate of such individual and (iii) identify the medical or vocational experts whose advice was obtained with respect to the initial benefit denial, without regard to whether the advice was relied upon in making the decision. The Appeals Committee shall make its decision regarding the merits of the denied claim within forty-five (45) days following receipt of the appeal (or within ninety (90) days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. Following its review of any additional information submitted by the Claimant, the Appeals Committee shall render a decision on its review of the denied claim.

(c) *Contents of Notice.* If a benefits claim is completely or partially denied on review, notice of such denial shall be in writing and shall set forth the reasons for denial in plain language.

The decision on review shall set forth (i) the specific reason or reasons for the denial, (ii) specific references to the pertinent Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, or other information relevant (as defined above) to the Claimant's claim, and (iv) a statement describing any voluntary appeal procedures offered by the plan and a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

(d) For the denial of a Disability benefit, the notice will also include a statement that the Appeals Committee will provide, upon request and free of charge, (i) any internal rule, guideline, protocol or other similar criterion relied upon in making the decision, (ii) any medical opinion relied upon to make the decision and (iii) the required statement under Section 2560.503-1(j)(5)(iii) of the Department of Labor regulations.

12.3 <u>Claims Appeals Upon Change in Control.</u> Upon a Change in Control, the Appeals Committee, as constituted immediately prior to such Change in Control, shall continue to act as the Appeals Committee. Upon such Change in Control, the Company may not remove any member of the Appeals Committee, but may replace resigning members if 2/3rds of the members of the Board of Directors of the Company and a majority of Participants and Beneficiaries with Account Balances consent to the replacement.

The Appeals Committee shall have the exclusive authority at the appeals stage to interpret the terms of the Plan and resolve appeals under the Claims Procedure.

Each Participating Employer shall, with respect to the Committee identified under this Section, (i) pay its proportionate share of all reasonable expenses and fees of the Appeals Committee, (ii) indemnify the Appeals Committee (including individual committee members) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Appeals Committee hereunder, except with respect to matters resulting from the Appeals Committee's gross negligence or willful misconduct and (iii) supply full and timely information to the Appeals Committee on all matters related to the Plan, any rabbi trust, Participants, Beneficiaries and Accounts as the Appeals Committee may reasonably require.

12.4 Legal Action. A Claimant may not bring any legal action, including commencement of any arbitration, relating to a claim for benefits under the Plan unless and until the Claimant has followed the claims procedures under the Plan and exhausted his or her administrative remedies under such claims procedures.

If a Participant or Beneficiary prevails in a legal proceeding brought under the Plan to enforce the rights of such Participant or any other similarly situated Participant or Beneficiary, in whole or in part, the Participating Employer shall reimburse such Participant or Beneficiary for all legal costs, expenses, attorneys' fees and such other liabilities incurred as a result of such proceedings. If the legal proceeding is brought in connection with a Change in Control, or a "change in control" as defined in a rabbi trust described in Section 11.2, the Participant or Beneficiary may file a claim directly with the trustee for reimbursement of such costs, expenses and fees. For purposes of the preceding sentence, the amount of the claim shall be treated as if it were an addition to the Participant's or Beneficiary's Account Balance.

12.5 Discretion of Appeals Committee. All interpretations, determinations and decisions of the Appeals Committee with respect to any claim shall be made in its sole discretion, and shall be final and conclusive.

12.6 Arbitration.

(a) *Prior to Change in Control.* If, prior to a Change in Control, any claim or controversy between a Participating Employer and a Participant or Beneficiary is not resolved through the claims procedure set forth in Article XII, such claim shall be submitted to and resolved exclusively by expedited binding arbitration by a single arbitrator. Arbitration shall be conducted in accordance with the following procedures:

The complaining party shall promptly send written notice to the other party identifying the matter in dispute and the proposed remedy. Following the giving of such notice, the parties shall meet and attempt in good faith to resolve the matter. In the event the parties are unable to resolve the matter within twenty one (21) days, the parties shall meet and attempt in good faith to select a single arbitrator acceptable to both parties. If a single arbitrator is not selected by mutual consent within ten (10) Business Days following the giving of the written notice of dispute, an arbitrator shall be selected from a list of nine persons each of whom shall be an attorney who is either engaged in the active practice of law or recognized arbitrator and who, in either event, is experienced in serving as an arbitrator in disputes between employers and employees, which list shall be provided by the main office of either JAMS, the American Arbitration Associate ("AAA") or the Federal Mediation and Conciliation Service. If, within three Business Days of the parties' receipt of such list, the parties are unable to agree on an arbitrator from the list, then the parties shall each strike names alternatively from the list, with the first to strike being determined by the flip of a coin. After each party has had four strikes, the remaining name on the list shall be the arbitrator. If such person is unable to serve for any reason, the parties shall repeat this process until an arbitrator is selected.

Unless the parties agree otherwise, within sixty (60) days of the selection of the arbitrator, a hearing shall be conducted before such arbitrator at a time and a place agreed upon by the parties. In the event the parties are unable to agree upon the time or place of the arbitration, the time and place shall be designated by the arbitrator after consultation with the parties. Within thirty (30) days of the conclusion of the arbitration hearing, the arbitrator shall issue an award, accompanied by a written decision explaining the basis for the arbitrator's award.

In any arbitration hereunder, the Participating Employer shall pay all administrative fees of the arbitration and all fees of the arbitrator, except that the Participant or Beneficiary may, if he/she/it wishes, pay up to one-half of those amounts. Each party shall pay its own attorneys' fees, costs, and expenses, unless the arbitrator orders otherwise. The prevailing party in such arbitration, as determined by the arbitrator, and in any enforcement or other court proceedings, shall be entitled, to the extent permitted by law, to reimbursement from the other party for all of the prevailing party's costs (including but not limited to the arbitrator's compensation), expenses, and attorneys' fees. The arbitrator shall have no authority to add to or to modify this Plan, shall apply all applicable law, and shall have no lesser and no greater remedial authority than would a court of law resolving the same claim or controversy. The arbitrator shall have no authority to add to or to modify this

Plan, shall apply all applicable law, and shall have no lesser and no greater remedial authority than would a court of law resolving the same claim or controversy. The arbitrator shall, upon an appropriate motion, dismiss any claim without an evidentiary hearing if the party bringing the motion establishes that it would be entitled to summary judgment if the matter had been pursued in court litigation.

The parties shall be entitled to discovery as follows: Each party may take no more than three depositions. The Participating Employer may depose the Participant or Beneficiary plus two other witnesses, and the Participant or Beneficiary may depose the Participating Employer, pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure, plus two other witnesses. Each party may make such reasonable document discovery requests as are allowed in the discretion of the arbitrator.

The decision of the arbitrator shall be final, binding, and non-appealable, and may be enforced as a final judgment in any court of competent jurisdiction.

This arbitration provision of the Plan shall extend to claims against any parent, subsidiary, or affiliate of each party, and, when acting within such capacity, any officer, director, shareholder, Participant, Beneficiary, or agent of any party, or of any of the above, and shall apply as well to claims arising out of state and federal statutes and local ordinances as well as to claims arising under the common law or under this Plan.

Notwithstanding the foregoing, and unless otherwise agreed between the parties, either party may apply to a court for provisional relief, including a temporary restraining order or preliminary injunction, on the ground that the arbitration award to which the applicant may be entitled may be rendered ineffectual without provisional relief.

Any arbitration hereunder shall be conducted in accordance with the Federal Arbitration Act: provided, however, that, in the event of any inconsistency between the rules and procedures of the Act and the terms of this Plan, the terms of this Plan shall prevail.

If any of the provisions of this Section 12.6(a) are determined to be unlawful or otherwise unenforceable, in the whole part, such determination shall not affect the validity of the remainder of this section and this section shall be reformed to the extent necessary to carry out its provisions to the greatest extent possible and to insure that the resolution of all conflicts between the parties, including those arising out of statutory claims, shall be resolved by neutral, binding arbitration. If a court should find that the provisions of this Section 12.6(a) are not absolutely binding, then the parties intend any arbitration decision and award to be fully admissible in evidence in any subsequent action, given great weight by any finder of fact and treated as determinative to the maximum extent permitted by law.

The parties do not agree to arbitrate any putative class action or any other representative action. The parties agree to arbitrate only the claims(s) of a single Participant or Beneficiary.

(b) *Upon Change in Control.* If, upon the occurrence of a Change in Control, any dispute, controversy or claim arises between a Participant or Beneficiary and the Participating Employer out of or relating to or concerning the provisions of the Plan, such dispute, controversy or claim shall be finally settled by a court of competent jurisdiction which, notwithstanding any other provision of the Plan, shall apply a de novo standard of review to any determination made by the Company or its Board of Directors, a Participating Employer, the Committee, or the Appeals Committee.

ARTICLE XIII

General Provisions

13.1 Anti-assignment Rule. No interest of any Participant, spouse or Beneficiary under this Plan and no benefit payable hereunder shall be assigned as security for a loan, and any such purported assignment shall be null, void and of no effect, nor shall any such interest or any such benefit be subject in any manner, either voluntarily or involuntarily, to anticipation, sale, transfer, assignment or encumbrance by or through any Participant, spouse or Beneficiary.

13.2 No Legal or Equitable Rights or Interest. No Participant or other person shall have any legal or equitable rights or interest in this Plan that are not expressly granted in this Plan. Participation in this Plan does not give any person any right to be retained in the service of the Participating Employer. The right and power of a Participating Employer to dismiss or discharge an Employee is expressly reserved. The Participating Employers make no representations or warranties as to the tax consequences to a Participant or a Participant’s beneficiaries resulting from a deferral of income pursuant to the Plan.

13.3 No Employment Contract. Nothing contained herein shall be construed to constitute a contract of employment between an Employee and a Participating Employer.

13.4 Notice. Any notice or filing required or permitted to be delivered to the Committee under this Plan shall be delivered in writing, in person, or through such electronic means as is established by the Committee. Notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Written transmission shall be sent by certified mail to:

CHESAPEAKE ENERGY CORPORATION
ATTN: DIRECTOR OF HUMAN RESOURCES
6100 N. Western Avenue
Oklahoma, Oklahoma 73118

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing or hand-delivered, or sent by mail to the last known address of the Participant.

13.5 Headings. The headings of Sections are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.

13.6 Invalid or Unenforceable Provisions. If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Committee may elect in its sole discretion to construe such invalid or unenforceable provisions in a manner that conforms to applicable law or as if such provisions, to the extent invalid or unenforceable, had not been included.

13.7 Lost Participants or Beneficiaries. Any Participant or Beneficiary who is entitled to a benefit from the Plan has the duty to keep the Committee advised of his or her current mailing address. If benefit payments are returned to the Plan or are not presented for payment after a reasonable amount of time, the Committee shall presume that the payee is missing. The Committee, after making such efforts as in its discretion it deems reasonable and appropriate to locate the payee, shall stop payment on any uncashed checks and may discontinue making future payments until contact with the payee is restored.

13.8 Facility of Payment to a Minor. If a distribution is to be made to a minor, or to a person who is otherwise incompetent, then the Committee may, in its discretion, make such distribution (i) to the legal guardian, or if none, to a parent of a minor payee with whom the payee maintains his or her residence, or (ii) to the conservator or committee or, if none, to the person having custody of an incompetent payee. Any such distribution shall fully discharge the Committee, the Company, and the Plan from further liability on account thereof.

13.9 Governing Law. To the extent not preempted by ERISA, the laws of the State of Oklahoma shall govern the construction and administration of the Plan.

IN WITNESS WHEREOF, the undersigned executed this Plan as of the 1st day of October, 2007, to be effective as of the Effective Date.

Chesapeake Energy Corporation

By: Lisa Phelps (Print Name)

Its: Vice President – Human Resources (Title)

/s/ Lisa Phelps (Signature)

EXHIBIT A TO THE
CHESAPEAKE ENERGY CORPORATION
AMENDED AND RESTATED DEFERRED COMPENSATION PLAN

Criteria for purposes of Sections 4.1(b)(i) and 5.1

- Receive a base salary of at least $100,000 during the 12-month period immediately preceding the Plan Year, and
- Be employed by an Employer on December 31 immediately preceding the Plan Year, and
- Have completed at least five Years of Service as of the December 31 immediately preceding the Plan Year; or
- Be designated by the Committee as eligible to participate.

Criteria for purposes of Sections 4.1(b)(ii) and 5.2

- Receive a base salary of at least $100,000 during the 12-month period immediately preceding the Plan Year, and
- Be employed by an Employer on December 31 immediately preceding the Plan Year, and
- Have completed at least one Year of Service as of the December 31 immediately preceding the Plan Year; or
- Be designated by the Committee as eligible to participate.

Exhibit 10.2.6

AMENDED AND RESTATED

EMPLOYMENT AGREEMENT

between

[Executive]

and

CHESAPEAKE ENERGY CORPORATION

Effective [-]

<u>AMENDED AND RESTATED</u>
<u>EMPLOYMENT AGREEMENT</u>

THIS AGREEMENT is made effective [date], between CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), and [Executive], an individual (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company and the Executive entered into that certain Employment Agreement dated [date of prior agreement] (the "Prior Agreement"); and

WHEREAS, the Company and the Executive desire to amend and restate the Prior Agreement in its entirety to reflect the foregoing and other changes to the arrangement between the Company and the Executive

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Company and the Executive agree as follows:

1. <u>Employment</u>. The Company hereby employs the Executive and the Executive hereby accepts such employment subject to the terms and conditions contained in this Agreement. The Executive is engaged as an Executive of the Company, and the Executive and the Company do not intend to create a joint venture, partnership or other relationship which might impose a fiduciary obligation on the Executive or the Company in the performance of this Agreement.

2. <u>Executive's Duties</u>. The Executive is employed on a full-time basis. Throughout the term of this Agreement, the Executive will use the Executive's best efforts and due diligence to assist the Company in achieving the most profitable operation of the Company and the Company's affiliated entities consistent with developing and maintaining a quality business operation. The Executive shall also devote all of Executive's working time, attention and energies to the performance of Executive's duties and responsibilities under this Agreement.

2.1 <u>Specific Duties</u>. The Executive will serve as the Senior Vice President for the Company, and in such positions as are mutually agreed upon by the parties. The Executive shall perform all of the duties required to fully and faithfully execute the office and position to which the Executive is appointed, and such other duties as may be reasonably requested by the Executive's supervisor. During the term of this Agreement, the Executive may be nominated for election or appointed to serve as a director or officer of any of the Company's affiliated entities as determined in such affiliates' Board of Directors' sole discretion. The services of the Executive will be requested and directed by [name and title of supervisor].

2.2 Rules and Regulations. The Company currently has an Employment Policies Manual which sets forth the general human resources policies of the Company and addresses frequently asked questions regarding the Company. The Executive agrees to comply with the Employment Policies Manual except to the extent inconsistent with this Agreement. The Employment Policies Manual is subject to change without notice in the sole discretion of the Company at any time.

2.3 Stock Investment. The Executive agrees to hold not less than ten thousand (10,000) shares of the Company's common stock at all times after [date] and prior to termination of the Agreement, exclusive of shares held by the Executive in the Company's retirement plans.

3. Other Activities. Except as provided in this Agreement or approved by the Company's Board in writing, the Executive agrees not to: (a) engage in other business activities independent of the Company; (b) serve as a general partner, officer, Executive, director or member of any corporation, partnership, company or firm; or (c) directly or indirectly invest, participate or engage in the Oil and Gas Business. For purposes of this Agreement the term "Oil and Gas Business" means: (i) producing oil and gas; (ii) drilling, owning or operating an interest in oil and gas leases or wells; (iii) providing material or services to the Oil and Gas Business; (iv) refining, processing or marketing oil or gas; or (v) owning an interest in or assisting any corporation, partnership, company, entity or person in any of the foregoing. The foregoing will not prohibit: (w) ownership of publicly traded securities; (x) ownership of royalty interests where the Executive owns the surface of the land covered by the royalty interest and the ownership of the royalty interest is incidental to the ownership of such surface estate; (y) ownership of royalty interests, overriding royalty interests, working interests or other interests in oil and gas owned prior to the Executive's date of first employment with the company and disclosed to the Company in writing; or (z) ownership of royalty interests, overriding royalty interests, working interests or other interests in oil and gas acquired by the Executive through a bona fide gift or inheritance subject to disclosure by Executive to the Company in writing.

4. Executive's Compensation. The Company agrees to compensate the Executive as follows:

4.1 Base Salary. A base salary (the "Base Salary"), at the initial annual rate of not less than [dollar value] will be paid to the Executive in regular installments in accordance with the Company's designated payroll schedule.

4.2 Bonus. In addition to the Base Salary described at paragraph 4.1 of this Agreement, the Company may periodically pay bonus compensation to the Executive. Any bonus compensation is subject to the requirement that the Executive be employed on such bonus payment date(s) selected by the Company and will be at the absolute discretion of the Company in such amounts and at such times as the Board of Directors of the Company may determine.

4.3 Equity Compensation. In addition to the compensation set forth in paragraphs 4.1 and 4.2 of this Agreement, the Executive may periodically receive grants of Chesapeake Energy Corporation ("CHK") restricted stock or other awards from the Company's various equity compensation plans, subject to the terms and conditions thereof.

4.4 Benefits. The Company will provide the Executive such retirement benefits, reimbursement of reasonable expenditures for dues, travel and entertainment and such other benefits as are customarily provided by the Company and as are set forth in and governed by the Company's Employment Policies Manual. The Company will also provide the Executive the opportunity to apply for coverage under the Company's medical, life and disability plans, if any. If the Executive is accepted for coverage under such plans, the Company will make such coverage available to the Executive on the same terms as is customarily provided by the Company to the plan participants as modified from time to time. The Executive is subject to all of the terms and provisions of the Company's benefit plans or policies. The following specific benefits will also be provided to the Executive at the expense of the Company:

4.4.1 Vacation. The Executive will be entitled to take four (4) weeks of paid vacation annually, calculated from the Executive's anniversary date, during the term of this Agreement. No additional compensation will be paid for failure to take vacation and no vacation may be carried forward from one twelve (12) month period to another.

4.4.2 Membership Dues. The Company will reimburse the Executive for: (a) the monthly dues necessary to maintain a full membership in a club in the Oklahoma City area selected by the Executive in an amount not to exceed Seven Hundred Fifty Dollars ($750.00) per month; and (b) the reasonable cost of any approved business entertainment at such club. All other costs, including, without implied limitation, any initiation costs, initial membership costs, personal use and business entertainment unrelated to the Company will be the sole obligation of the Executive and the Company will have no liability with respect to such amounts.

4.5 Change of Control Payment. If, during the term of this Agreement, there is a "Change of Control," as defined below, the Executive will be entitled to a lump sum payment (in addition to any other amounts payable to the Executive under this Agreement or otherwise) in an amount equal to two hundred percent (200%) of the sum of; (a) the Executive's then current Base Salary under paragraph 4.1 of this Agreement and (b) the actual bonuses paid to the Executive during the twelve (12) calendar months preceding the Change of Control under paragraph 4.2 of this Agreement or its predecessor. Additionally, all Equity Compensation granted to Executive under Section 4.3 of this Agreement shall be immediately vested upon the occurrence of such a Change of Control. If the Executive's employment is terminated as a result of the Change of Control and the Executive is a "specified employee" as defined in regulations under Section 409A of the Internal Revenue Code, such payment will commence on the first payroll payment date which is not less than six (6) months following the Termination Date. The right to such compensation is subject to the Executive's continued compliance with each of the provisions of this Agreement. If the foregoing amount is not paid to the Executive within thirty (30) days after the Change of Control, or following the date for which Executive is eligible for payment if a "specified employee", the unpaid amount will bear interest at the per annum rate equal to twelve percent (12%) (the provision for such interest is not intended to, and shall not be construed as altering the Company's obligation to pay, and the Executive's right to receive, such payment within thirty (30) days after a Change of Control). For the purpose of this Agreement, a "Change of Control" means the occurrence of any of the following:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of either (i) the then outstanding shares of common CHK stock (the "Outstanding CHK Common Stock") or (ii) the combined voting power of the then outstanding voting securities of CHK entitled to vote generally in the election of directors (the "Outstanding CHK Voting Securities"). For purposes of this paragraph, the following acquisitions by a Person will not constitute a Change of Control: (i) any acquisition directly from CHK; (ii) any acquisition by CHK; (iii) any acquisition by or sponsored by Mr. Aubrey K. McClendon; (iv) any acquisition by any Executive benefit plan (or related trust) sponsored or maintained by CHK or any corporation controlled by CHK; or (v) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of paragraph (c) below;

(b) the individuals who, as of June 15, 2006, constitute the Board of Directors (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors. Any individual becoming a director subsequent to the date hereof whose election, or nomination for election by CHK's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board as of the date hereof, but any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board will not be deemed a member of the Incumbent Board as of the date hereof;

(c) the consummation of a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of CHK (a "Business Combination"), unless following such Business Combination: (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding CHK Common Stock and Outstanding CHK Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than sixty percent (60%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns CHK or all or substantially all of the CHK's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding CHK Common Stock and Outstanding CHK Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any Executive benefit plan (or related trust) of CHK or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, thirty percent (30%) or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the Board of Directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board, providing for such Business Combination; or,

(d) the approval by the shareholders of CHK of a complete liquidation or dissolution of CHK.

5. Term. The employment relationship evidenced by this Agreement is an “at will” employment relationship and the Company reserves the right to terminate the Executive at any time with or without cause as provided herein. In the absence of such termination, this Agreement will extend for a term of three (3) years commencing on [date of agreement] and ending on [expiration date] (the “Expiration Date”).

6. Termination. This Agreement will continue in effect until the expiration of the term stated at paragraph 5 of this Agreement unless earlier terminated pursuant to this paragraph 6.

6.1 Termination by Company. The Company will have the following rights to terminate this Agreement:

6.1.1 Termination without Cause. The Company may terminate this Agreement without cause at any time by the service of written notice of termination to the Executive specifying an effective date of such termination not sooner than thirty (30) business days after the date of such notice (the “Termination Date”). Elimination of Executive’s job position or duties and/or reassignment of Executive to a new position of less authority or compensation may, at the Executive’s option, be deemed as a Termination without Cause. In the event the Executive is terminated without cause, the Executive will receive as termination compensation: (a) Base Salary for a period of one (1) year; (b) all Equity Compensation granted to Executive under Section 4.3 of this Agreement shall be immediately vested; (c) any benefits payable by operation of paragraph 4.4 of this Agreement; and (d) any vacation pay accrued through the Termination Date. If, on the Termination Date, the Executive is a “specified employee” as defined in regulations under Section 409A of the Internal Revenue Code, such payment will commence on the first payroll payment date which is not less than six (6) months following the Termination Date. The right to the foregoing termination compensation under clauses (a) and (b) above is subject to the Executive’s execution of the Company’s severance agreement which will operate as a release of all legally waivable claims against the Company. Such payment is further conditioned upon the Executive’s compliance with all of the provisions of this Agreement, including all post-employment obligations.

6.1.2 Termination for Cause. The Company may terminate this Agreement for cause if the Executive: (a) misappropriates the property of the Company or commits any other act of workplace dishonesty; (b) engages in personal misconduct which injures the Company; (c) violates any law or regulation relating to the business of the Company which results in injury to the Company; or (d) fails to perform the Executive's duties hereunder. In the event this Agreement is terminated for cause, the Company will not have any obligation to provide any further payments or benefits to the Executive after the Termination Date other than any benefits payable by operation of paragraph 4.4 of this Agreement; and any vacation pay accrued through the Termination Date.

6.2 Termination by Executive. The Executive may voluntarily terminate this Agreement with or without cause by the service of written notice of such termination to the Company specifying a Termination Date no sooner than thirty (30) days after the date of such notice. In the event this Agreement is terminated by the Executive, neither the Company nor the Executive will have any further obligations hereunder including, without limitation, any obligation of the Company to provide any further payments or benefits to the Executive after the Termination Date other than any benefits payable by operation of paragraph 4.4 of this Agreement; and any vacation pay accrued through the Termination Date. The Company reserves the right to end the employment relationship immediately and to pay Executive through the notice date.

6.3 Retirement by Executive. In the event the Executive terminates this Agreement as a result of Executive's separation from employment for reasons other than under paragraph 6.1.2 of this Agreement, the Executive will be eligible for accelerated vesting of unvested Equity Compensation awarded by the Company, with the exception of Equity Compensation awarded under the 2006 Long Term Stock Incentive Program, in accordance with the Retirement Matrix attached to this Agreement. Supplemental Matching Contributions to the Chesapeake Energy Corporation 401(k) Make-Up Plan will vest in accordance with the terms of the Plan and not in accordance with the Retirement Matrix.

6.4 Incapacity of Executive. If the Executive suffers from a physical or mental condition which in the reasonable judgment of the Company's management prevents the Executive in whole or in part from performing the duties specified herein for a period of three (3) consecutive months, the Executive may be terminated. Although the termination may be deemed as a termination for cause, any compensation payable under paragraph 4 of this Agreement will be continued for one hundred eighty days (180) days following the Termination Date in addition to any benefits payable by operation of paragraph 4.4 of this Agreement. Notwithstanding the foregoing, the Executive's Base Salary specified in paragraph 4.1 of this Agreement will be reduced by any benefits payable under any disability plans provided by the Company under paragraph 4.4. If, on the Termination Date, the Executive is a "specified employee" as defined in regulations under Section 409A of the Internal Revenue Code, such payments will commence on the first payroll payment date which is not less than six (6) months following the Termination Date. The right to the compensation due under this paragraph 6.3 is subject to the execution by the Executive or the Executive's legal representative of the Company's severance agreement which will operate as a release of all legally waivable claims against the Company. In applying this section, the Company will comply with any applicable legal requirements, including the Americans with Disabilities Act.

6.5 Death of Executive. If the Executive dies during the term of this Agreement, the Company may thereafter terminate this Agreement without compensation to the Executive's estate except: (a) the obligation to continue the Base Salary payments under paragraph 4.1 of this Agreement for one (1) year following the date of the Executive's death; and (b) the benefits described in paragraph 4.4 of this Agreement accrued through the date of the Executive's death. Additionally, all Equity Compensation granted to Executive under Section 4.3 of this Agreement shall be immediately vested in the event of the death of the Executive. The right to the compensation due under this paragraph 6.5 is subject to the execution by the administrator of the Executive's estate of the Company's severance agreement which will operate as a release of all legally waivable claims against the Company.

6.6 Effect of Termination. The termination of this Agreement will terminate all obligations of the Executive to render services on behalf of the Company from and after the Termination Date, provided that the Executive will maintain the confidentiality of all information acquired by the Executive during the term of Executive's employment in accordance with paragraph 7 of this Agreement and the Executive shall comply with all other post employment requirements including paragraphs 7, 8, 9, 10, 11, 12, 13 and 14. Except as otherwise provided in paragraph 6 of this Agreement, no accrued bonus, severance pay or other form of compensation will be payable by the Company to the Executive by reason of the termination of this Agreement. All keys, entry cards, credit cards, files, records, financial information, furniture, furnishings, equipment, supplies and other items relating to the Company in the Executive's possession will remain the property of the Company. The Executive will have the right to retain and remove all personal property and effects which are owned by the Executive and located in the offices of the Company at a time determined by the Company. All such personal items will be removed from such offices no later than two (2) days after the Termination Date, and the Company is hereby authorized to discard any items remaining and to reassign the Executive's office space after such date. Prior to the Termination Date, the Executive will render such services to the Company as might be reasonably required to provide for the orderly termination of the Executive's employment. Notwithstanding the foregoing and without discharging any obligations to pay compensation to the Executive under this Agreement, after notice of the Termination, the Company may request that the Executive not provide any other services to the Company and not enter the Company's premises before or after the Termination Date. In the event that the Executive separates employment with the Company, Executive hereby grants consent to notification by the Company to Executive's new employer about Executive's rights and obligations under this Agreement. Upon such termination of employment, Executive further agrees to acknowledge compliance with this Agreement in a form reasonable provided by the Company.

7. Confidentiality. The Executive recognizes that the nature of the Executive's services are such that the Executive will have access to information which constitutes trade secrets, is of a confidential nature, is of great value to the Company and/or is the foundation on which the business of the Company is predicated. The Executive also acknowledges that, during the course of employment, the Executive may have personal contact and conduct business with the customers, suppliers and accounts of the Employer. The Executive agrees not to disclose to any person other than authorized Executives of the Company or the Company's legal counsel nor use for any purpose, other than the performance of this Agreement, any confidential information ("Confidential Information"). Confidential Information includes data or material (regardless of form) which is: (a) a trade secret (a trade secret shall include any formula, pattern, device or compilation of information used by the Employer in its business); (b) provided, disclosed or delivered to Executive by the Company, any officer, director, Executive, agent, attorney, accountant, consultant, or other person or entity employed by the Company in any capacity, any customer, borrower or business associate of the Company or any public authority having jurisdiction over the Company of any business activity conducted by the Company; or (c) produced, developed, obtained or prepared by or on behalf of Executive or the Company (whether or not such information was developed in the performance of this Agreement) with respect to the Company or any assets oil and gas prospects, business activities, officers, directors, Executives, borrowers or customers of the foregoing. The Executive acknowledges that Executive will obtain unique benefits from employment and the provisions contained in this Agreement are reasonably necessary to protect the Employer's legitimate business interests. On request by the Company, the Company will be entitled to the return of any Confidential Information in the possession of the Executive. The Executive also agrees that the provisions of this paragraph 7 will survive the termination, expiration or cancellation of this Agreement for a period of three (3) years. The Executive will deliver to the Company all originals and copies of the documents or materials containing Confidential Information. For purposes of paragraphs 7, 8, 9, 10 and 13 of this Agreement, the Company expressly includes any of the Company's affiliated corporations, partnerships or entities.

8. Noncompetition. For a period of six (6) months after the Executive is no longer employed by the Company for any reason, the Executive will not acquire, attempt to

acquire or aid another in the acquisition or attempted acquisition of an interest in oil and gas assets, oil and gas production, oil and gas leases, mineral interests, oil and gas wells or other such oil and gas exploration, development or production activities within any spacing unit in which the Company owns an oil and gas interest on the date of the resignation or termination of the Executive.

9. Non-Solicitation. The Executive agrees that during his/her employment hereunder, and for the one (1) year period immediately following the separation of employment for any reason, the Executive shall not solicit or contact any established client or customer of the Company with a view to inducing or encouraging such established client or customer to discontinue or curtail any business relationship with the Company. The Executive further agrees that the Executive will not request or advise any established clients, customers or suppliers of the Company to withdraw, curtail or cancel its business with the Company.

10. Non-Solicitation of Employees. The Executive covenants that during the term of employment and for the one (1) year period immediately following the separation of employment for any reason, Executive will neither directly nor indirectly induce nor attempt to induce any Executive or Employee of the Company to terminate his or her employment to go to work for any other Company.

11. Reasonableness. The Company and Executive have attempted to specify a reasonable period of time and reasonable restrictions to which this Agreement shall apply. The Company and Executive agree that if a court or administrative body should subsequently determine that the terms of this Agreement are greater than reasonably necessary to protect the Company’s interest, the Company agrees to waive those terms which are found by a court or administrative body to be greater than reasonably necessary to protect the Company’s interest and to request that the court or administrative body reform this Agreement specifying a reasonable period of time and such other reasonable restrictions as the court or administrative body deems necessary.

12. Equitable Relief. The Executive acknowledges that the services to be rendered by Executive are of a special, unique, unusual, extraordinary, and intellectual character, which gives them a peculiar value, and the loss of which cannot reasonably or adequately be compensated in damages in an action at law; and that a breach by the Executive of any of the provisions contained in this Agreement will cause the Company irreparable injury and damage. The Executive further acknowledges that the Executive possesses unique skills, knowledge and ability and that any material breach of the provisions of this Agreement would be extremely detrimental to the Company. By reason thereof, the Executive agrees that the Company shall be entitled, in addition to any other remedies it may have under this Agreement or otherwise, to injunctive and other equitable relief to prevent or curtail any breach of this Agreement by him/her.

13. Proprietary Matters. The Executive expressly understands and agrees that any and all improvements, inventions, discoveries, processes, know-how or intellectual property that are generated or conceived by the Executive during the term of this

Agreement, whether generated or conceived during the Executive's regular working hours or otherwise, will be the sole and exclusive property of the Company. Whenever requested by the Company (either during the term of this Agreement or thereafter), the Executive will assign or execute any and all applications, assignments and or other instruments and do all things which the Company deems necessary or appropriate in order to permit the Company to: (a) assign and convey or otherwise make available to the Company the sole and exclusive right, title, and interest in and to said improvements, inventions, discoveries, processes, know-how, applications, patents, copyrights, trade names or trademarks; or (b) apply for, obtain, maintain, enforce and defend patents, copyrights, trade names, or trademarks of the United States or of foreign countries for said improvements, inventions, discoveries, processes or know-how. However, the improvements, inventions, discoveries, processes or know-how generated or conceived by the Executive and referred to above (except as they may be included in the patents, copyrights or registered trade names or trademarks of the Company, or corporations, partnerships or other entities which may be affiliated with the Company) shall not be exclusive property of the Company at any time after having been disclosed or revealed or have otherwise become available to the public or to a third party on a non-confidential basis other than by a breach of this Agreement, or after they have been independently developed or discussed without a breach of this Agreement by a third party who has no obligation to the Company or its affiliates. The foregoing will not prohibit any activities which are expressly permitted by the last sentence of paragraph 3 of this Agreement during the term of this Agreement.

14. Arbitration. Any disputes, claims or controversy's between the Employer and Executive including, but not limited to those arising out of or related to this Agreement or out of the parties' employment relationship, shall be settled by arbitration as provided herein. This agreement shall survive the termination or rescission of this Agreement. All arbitration shall be in accordance with Rules of the American Arbitration Association, including discovery, and shall be undertaken pursuant to the Federal Arbitration Act. Arbitration will be held in Oklahoma City, Oklahoma unless the parties mutually agree to another location. The decision of the arbitrator will be enforceable in any court of competent jurisdiction. Each party shall bear their own costs and attorney fees in connection with the arbitration. The parties, however, agree that the Employer shall be entitled to obtain injunctive or other equitable relief to enforce the provisions of this Agreement in a court of competent jurisdiction.

15. Miscellaneous. The parties further agree as follows:

15.1 Time. Time is of the essence of each provision of this Agreement.

15.2 Notices. Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement will be in writing and will be deemed to have been given when delivered personally or by telefacsimile to the party designated to receive such notice, or on the date following the day sent by overnight courier, or on the third (3rd) business day after the same is sent by certified mail, postage and charges prepaid, directed to the following address or to such other or additional addresses as any party might designate by written notice to the other party:

To the Company:	Chesapeake Energy Corporation Post Office Box 18496 Oklahoma City, OK 73154-0496 Attn: Aubrey K. McClendon
To the Executive:	[Name and Address of Executive]

15.3 Assignment. Neither this Agreement nor any of the parties' rights or obligations hereunder can be transferred or assigned without the prior written consent of the other parties to this Agreement; provided, however, the Company may assign this Agreement to any wholly owned affiliate or subsidiary of Chesapeake Energy Corporation without Executive's consent.

15.4 Construction. If any provision of this Agreement or the application thereof to any person or circumstances is determined, to any extent, to be invalid or unenforceable, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which the same is held invalid or unenforceable, will not be affected thereby, and each term and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law. Except as provided for in paragraph 14, this Agreement is intended to be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma.

15.5 Entire Agreement. This Agreement, any documents executed in connection with this Agreement, any documents specifically referred to in this Agreement and the Employment Policies Manual constitute the entire agreement between the parties hereto with respect to the subject matter herein contained, and no modification hereof will be effective unless made by a supplemental written agreement executed by all of the parties hereto.

15.6 Binding Effect. This Agreement will be binding on the parties and their respective successors, legal representatives and permitted assigns. In the event of a merger, consolidation, combination, dissolution or liquidation of the Company, the performance of this Agreement will be assumed by any entity which succeeds to or is transferred the business of the Company as a result thereof, and the Executive waives the consent requirement of paragraph 11.3 to effect such assumption.

15.7 Supersession. On execution of this Agreement by the Company and the Executive, the relationship between the Company and the Executive will be bound by the terms of this Agreement, any documents executed in connection with this Agreement, any documents specifically referred to in this Agreement and the Employment Policies Manual. In the event of a conflict between the Employment Policies Manual and this Agreement, this Agreement will control in all respects.

15.8 Third-Party Beneficiary. The Company's affiliated entities and partnerships are beneficiaries of all terms and provisions of this Agreement and entitled to all rights hereunder.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective the date first above written.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By: ______________________________
Aubrey K. McClendon, Chief Executive Officer
(the "Company")

By: ______________________________
[Executive]

CHESAPEAKE ENERGY CORPORATION
Retirement Matrix

	SVPs and EVPs			
Service Years	**<55**	**55 - 60**	**61 - 65**	**>65**
0 - 5	0%	40%	60%	75%
5 - 10	0%	60%	80%	100%
10 - 15	0%	80%	100%	100%
15 +	0%	100%	100%	100%

Exhibit 10.3

INDEMNITY AGREEMENT

This Agreement is made and entered into by and between Chesapeake Energy Corporation, an Oklahoma corporation (hereinafter the “Company”) and [Officer] of the Company (hereinafter, together with her heirs, personal representatives, and estate, the “Indemnitee” or “claimant”).

WITNESSETH: THAT

WHEREAS, Section 1031 (“Section 1031”) of the General Corporation Act of the State of Oklahoma (“Oklahoma Law”) empowers corporations to indemnify a person serving as a director, officer, employee, or agent of the corporation or a person who serves at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust or other enterprise, and further specifies that the indemnification set forth in Section 1031 “shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors or otherwise”; and Section 1031 further empowers a corporation to “purchase and maintain insurance” on behalf of any of such persons “against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under” Section 1031; and

WHEREAS, the Board of Directors has concluded that the Company’s directors and officers should be provided with maximum protection in order to insure that the most capable persons otherwise available will remain in, and in the future be attracted to, such directorships and, furthermore, that it is fair, reasonable, prudent and necessary for the Company to contractually obligate itself to indemnify present and future directors and officers of the Company and their respective estates in a reasonable and adequate manner and that the Company assume for itself the responsibility and liability for expenses and damages in connection with claims brought whether on account of any prior, present or future alleged act, omission, injury, damage, or event; and

WHEREAS, the Company desires to have the Indemnitee serve or continue to serve as a director and/or officer of the Company or its Affiliates free from undue concern for damages by reason of her being a director of the Company or its Affiliates or by reason of her decisions or actions on its behalf; and the Indemnitee desires to serve, or to continue to serve, provided that she is furnished the indemnity provided for hereinafter, as a director and/or officer of the Company or its Affiliates.

NOW, THEREFORE, in consideration of the mutually dependent covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. Agreement to Serve: Definitions.

1.1 Agreement to Serve. The Indemnitee will serve, and/or continue to serve, the Company as a director and/or officer so long as she is duly elected and qualified in accordance with the provisions of the By-laws thereof or until such time as she resigns or is removed.

1.2 Definitions. Unless the context otherwise clearly indicates to the contrary, the following terms as used herein shall have the respective meanings set forth below:

(a) "Affiliates" shall mean any corporation, partnership, or other enterprise which controls, is controlled by, or is under common control with the Company; provided, that any corporation, partnership, or other enterprise which is at least 30% beneficially owned by the Company or by any corporation at least 51% of which is owned by the Company shall be deemed an "Affiliate" of the Company.

(b) "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule l3d-3 under said Act), directly or indirectly of securities of the Company representing 20% or more of the total voting power represented by the Company's then outstanding Voting Securities, or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company (in one transaction or a series of transactions) of all or substantially all the Company's assets.

(c) "Expenses" shall include attorneys' fees and all other costs, travel expenses, fees of experts, transcript costs, filing fees, witness fees, telephone and telefacsimile charges, postage, delivery service fees, expenses and obligations of any nature whatsoever paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any claim relating to any Indemnifiable Event.

(d) "Indemnifiable Event" shall mean any event or occurrence that takes place either prior to or after the execution of this Agreement related to the fact that the Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by the Indemnitee in any such capacity.

(e) "Independent Directors" shall mean the Company's directors exclusive of any director who is the Indemnitee.

(f) "Independent Legal Counsel" shall mean an attorney, who shall not have otherwise performed services for the Company or the Indemnitee within the last five years (other than in connection with seeking indemnification under this Agreement). Independent Legal Counsel shall not be any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's rights under this Agreement, nor shall independent Legal Counsel be any person who has been sanctioned or censured for ethical violations of applicable standards of professional conduct.

(g) "Non-governmental" shall refer to any Person which is not (i) the government of the United States of America or of any state, district, territory, or possession thereof or of any county, parish, city, town, township, or municipality within any such state, district, territory or possession, or (ii) any agency, tribunal, council, instrumentality or public body established by any Person described in (i).

(h) "Person" means any one (or more) individual or natural person or any one (or more) corporation, firm, joint venture, partnership, proprietorship, business venture, government, governmental body, agency or instrumentality, estate, trust, association, or other legal entity whatsoever or a group of same.

(i) "Policy" shall refer to any insurance policy or coverage obtained with respect of potential liabilities of directors and officers of the Company.

(j) "Potential Change in Control" shall be deemed to have occurred if (i) the Company enters into an agreement or arrangement, the consummation of which would result in the occurrence of a Change in Control; (ii) any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control; (iii) any person, other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company acting in such capacity or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, who is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 10% or more of the combined voting power of the Company's then outstanding Voting Securities, increases his beneficial ownership of such securities by 5% or more over the percentage so owned by such person on the date hereof; or (iv) the Board adopt a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(k) "Voting Securities" shall mean any securities of the Company which vote generally in the election of directors.

2. Indemnification. Subject to the provisions of Sections 7 and 9, the Company shall indemnify the Indemnitee as follows:

2.1 Obligation to Indemnify. The Company will pay on behalf of the Indemnitee, and her executors, administrators and heirs, any amount which she is or becomes legally obligated to pay because of (i) any claim or claims from time to time threatened or made against her by any Person because of any act or omission or neglect or breach of duty, including any actual or alleged error or misstatement or misleading statement, which she commits or suffers while acting in his capacity as a director and/or officer of the Company or an Affiliate or (ii) being a party, or being threatened to be made a party, to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, by reason of the fact that she is or was an officer, director, employee, or agent of the Company or an Affiliate or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The payments which the Company will be obligated to make hereunder shall include, inter alia damages, charges, judgments, fines, penalties, settlements and costs, cost of investigation and costs of defense of legal or equitable or criminal actions, claims or proceedings and appeals therefrom, and costs of attachment, supersedeas, bail, surety or other bonds.

2.2 Failure to Timely Pay. If a claim under this Agreement is not paid by the Company, or on its behalf, within sixty (60) days after a written claim has been received by the Company, the Indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim and, if successful in whole or in part, the Indemnitee shall be entitled to be paid also the expense (including reasonable attorney's fees) of prosecuting such claim.

2.3 Notice of Claim. The Indemnitee shall give to the Company notice in writing as soon as practicable of any claim made against her for which indemnity will or could be sought under this Agreement. The Indemnitee will further notify and cooperate with the Company in the selection of counsel and in the incurrence of costs and expenses in defending or investigating any claim for which indemnity may be sought hereunder. The Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within the Indemnitee's power.

3. Assumption of Liability by Company. If the Indemnitee is deceased and is entitled to indemnification under any provision of this Agreement, the Company shall indemnify the Indemnitee's estate and her spouse, heirs, administrators and executors against, and the Company shall assume any and all costs, charges, and expenses (including attorneys' fees), penalties and fines actually and reasonably incurred by or for the Indemnitee or her estate, in connection with the investigation, defense, settlement or appeal of any such action, suit or proceeding. Further, when requested in writing by the spouse of the Indemnitee, and/or the heirs, executors or administrators of the Indemnitee's estate, the Company shall provide appropriate evidence of the Company's agreement set out herein to indemnify the Indemnitee against and to assume itself such costs, charges, liabilities and expenses.

4. Partial Indemnification. If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the cost, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in the investigation, defense, appeal or settlement of such suit, action or proceeding but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify the Indemnitee as to the portion thereof to which the Indemnitee is entitled.

4. Determination of Right to Indemnification. Anything contained elsewhere herein to the contrary notwithstanding, any indemnification under the terms of this Agreement shall (unless ordered by a court) be paid by the Company promptly or in any event within 60 days of written request therefor, unless a determination is made, as hereinafter provided, that indemnification is not proper in the circumstances because of the provisions of Sections 7 or 9.

The determination as to whether or not the Indemnitee has met the standard of conduct required to qualify and entitle her, partially or fully, to indemnification under the provisions of any provision of Section 2 hereof may be made (i) either by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties of such action, suit or proceeding; or (ii) by legal counsel (who may be the outside counsel regularly employed by the Company); provided that the manner in which (and, if applicable, the counsel by which) the right to indemnification is to be determined shall be approved in advance in writing by both the highest ranking executive officer of the Company who is not party to such action (sometimes hereinafter referred to as "Senior Officer") and by the Indemnitee. In the event that such parties are unable to agree on the manner in which the determination of the right to indemnity is to be made, such determination may be made by Independent Legal Counsel retained by the Company especially for such purpose; provided that such Independent Legal Counsel shall be approved in advance in writing by both the Senior Officer and the Indemnitee; and, provided further, that such Independent Legal Counsel shall not be outside counsel regularly employed by the Company. The fees and expenses of Independent Legal Counsel in connection with making the determination contemplated hereunder shall be paid by the Company, and if requested by such Independent Legal Counsel, the Company shall give such Independent Legal Counsel an appropriate written agreement with respect to the payment of their fees and expenses and such other matters as may be reasonably requested by counsel.

Notwithstanding the foregoing, the Indemnitee may, either before or within two (2) years after a determination has been made as provided above, petition any court of competent jurisdiction to determine whether the Indemnitee is entitled to indemnification under the provisions hereof under which she claims the right to indemnification, and such court shall thereupon have the exclusive authority to make such determination unless and until such court dismisses or otherwise terminates such action without having made such determination. The court shall, as petitioned, make an independent determination of whether the Indemnitee is entitled to indemnification as provided hereunder, irrespective of any prior determination made by the Board of Directors, the stockholders or counsel. If the court shall determine that the Indemnitee is entitled to indemnification hereunder as to any claim, issue or matter involved in the action, suit or proceeding with respect to which there has been no prior determination pursuant hereto or with respect to which there has been a prior determination pursuant hereto that the Indemnitee was not entitled to indemnification hereunder, the Company shall pay all expenses (including attorneys' fees) actually incurred by the Indemnitee in connection with such judicial determination.

If the Person (including the Board of Directors, Independent Legal Counsel, the stockholders or a court) making the determination hereunder shall determine that the Indemnitee is entitled to indemnification as to some claims, issues or matters involved in the action, suit or proceeding but not as to others, such Person shall reasonably prorate the expenses (including attorneys' fees), judgments, penalties, fines and amounts paid in settlement) with respect to which indemnification is sought by the Indemnitee among such claims, issues or matters.

If, and to the extent that, it is finally determined hereunder that the Indemnitee is not entitled to indemnification, then the Indemnitee agrees to reimburse the Company for all expenses advanced or prepaid hereunder, or the proper proportion thereof, other than the expenses of obtaining the judicial determination referred to above.

5. Advances of Costs, Charges, and Expenses. The costs, charges, and expenses incurred by the Indemnitee in investigating, defending, or appealing any threatened, pending or completed civil or criminal action, suit or proceeding (administrative or investigative) covered hereunder, shall be paid by the Company in advance (unless, in the opinion of regular outside counsel to the Company, the provisions of Sections 7 or 9 preclude such advance payment) properly to investigate, defend or appeal any such action, suit, or proceeding, and any judgments, fines or amounts paid in settlement shall be paid by the Company in advance, unless, in the opinion of such counsel, the provisions of Sections 7 and 9 preclude such advance payment, all with the understanding and agreement hereby made and entered into by the Indemnitee and the Company, that in the event it shall ultimately be determined as provided hereunder that the Indemnitee was not entitled to be indemnified, or was not entitled to be fully indemnified, that the Indemnitee shall repay to the Company such amount, or the appropriate portion thereof, so paid or advanced.

6. Other Rights and Remedies. The indemnification and advance payment of expenses as provided by any provision of this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled under any provision of law, any Policy (as an insured thereunder), the Company's Certificate of Incorporation, any By-law, this or any other agreement, vote of stockholders or disinterested directors, or otherwise, as to action in his official capacity, and shall continue after the Indemnitee has ceased to occupy such position and shall inure to the benefit of the heirs, executors and administrators of the Indemnitee.

7. Construction.

7.1 Contractual Liability. This Agreement shall not be construed so as to give rise to a "contractual liability" which is excluded by any Policy. Each and every term hereof is enforceable by the Indemnitee solely as to amounts (a) in excess of the limits of the Policy with respect to costs, charges and expenses (including attorney's fees), judgments, fines, penalties and amounts paid in settlement for which coverage is in effect under the Policy and (b) used under the Policy as a "deductible" amount and (c) which none of the Policy and the other liability insurance policies of the Company clearly covers for the Indemnitee as Insured thereunder; however, in any case in which the Company believes the Policy or its other insurance should cover a loss, cost or expense, the Company may make a contingent advance of monies pursuant to the terms hereof without admission, waiver or prejudice to its position that the Policy or the Company's other insurance covers the loss, cost or expense. In amplification and clarification but not in limitation hereof, it is the intent of the Company that this Agreement operate as "excess coverage" above the Policy and other applicable insurance limits and that it operate as "first dollar" coverage in all matters which are outside the scope of the Policy or within the deductibles of the Policy and all other insurance maintained by the Company from time to time, except as to the exclusions set forth in Section 9.

In amplification but not in limitation of the foregoing, there is hereby expressly included "first dollar" coverage with respect to the following matters if considered by the Policy to be exclusions:

(1) any act or omission in connection with the acquisition or assumption by Affiliates or the Company of the stock, assets and/or business of other corporations by merger, purchase of assets, bulk reinsurance and otherwise;

(2) liabilities and expenses based on or arising out of any action, suit or proceeding by a Non-governmental Person involving the Racketeer Influenced and Corrupt Organizations Act. 18 U.S.C. § 1961 et seq.; and

(3) any act or omission the sole applicable exclusion for which by the Policy is on account of either (i) lack of appropriate notice, (ii) the existence of prior insurance, (iii) the timing of the occurrence and the claim, or (iv) other procedural defenses to coverage by the Policy.

7.2 Partial Invalidity. If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable for any reason whatsoever, (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, all portion of any paragraphs or Sections of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraph or Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

9. Exclusions and Limitation. Notwithstanding anything contained herein to the contrary:

7.3 The Company shall not be liable to the Indemnitee for, nor obligated to furnish advances in connection with, any loss, cost or expense of Indemnitee resulting from her willful or negligent violation of Section 16(b) of the Securities Exchange Act of 1934 or of the Foreign Corrupt Practices Act of 1977.

2.0 The Company shall not be liable to the Indemnitee for, and shall not be obligated to furnish any advances except for repayable costs, charges and expenses as hereinabove stated, in connection with, any loss, cost or expense of the Indemnitee as the direct result of a final judgment for money damages payable to the Company or any Affiliate for or on account of Loss, cost of expense directly or indirectly resulting from the Indemnitee's negligence or misconduct within the meaning of Section 1031(B) of Oklahoma Law.

3.0 Unless otherwise allowed by a court of competent jurisdiction, the Company shall not be liable to the Indemnitee for, and the Indemnitee undertakes to repay the Company for all advances which may have been made of, expenses of investigation, defense or appeal of any matter the judgment of which is excluded under subsection 9.2 next above.

4.0 Unless otherwise determined by a court of competent jurisdiction, a settlement of any suit, action or proceeding shall be presumed to be an "expense" in mitigation of the expenses of continued litigation and not the compromise of a judgment on the merits of the action, suit or proceeding.

5.0 Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to Directors of the Company pursuant to the foregoing provisions, or otherwise, the Board of Directors has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director and/or officer of the Company in the wholly or partially successful defense of any action, suit or proceeding) is asserted by the Indemnitee in connection with Company securities which have been registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it hereunder is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue. In effect, therefore, absent a court decision in the individual case or controlling precedent, the provisions of the Agreement will not apply to liabilities of the Indemnitee arising under the Securities Act unless and only to the extent that the Indemnitee is successful in the defense of the action, suit or proceeding in question.

7.4 The Company shall not be liable under this Agreement to make any payment in connection with any claim made against the Indemnitee:

(a) based upon or attributable to the Indemnitee or any member of her immediate family gaining in fact any personal profit or advantage to which she was not legally entitled;

(b) based upon or attributable to the dishonesty of the Indemnitee seeking payment hereunder; provided that the Indemnitee shall be protected under this Agreement as to any claims upon which suit may be brought against her by reason of any alleged dishonesty on her part, unless a judgment or other final adjudication thereof adverse to the Indemnitee shall establish that she committed acts of active and deliberate dishonesty, with actual dishonest purpose or intent, which acts were material to the cause of action so adjudicated;

(c) for bodily injury, sickness, disease or death of any person, or damage to or destruction of any tangible property; including loss of use thereof; or

(d) for which indemnification under this Agreement is determined by a final adjudication of a court of competent jurisdiction to be unlawful and violative of public policy.

8. Change in Control. The Company agrees that if there is a Change in Control of the Company (other than a Change in Control which has been approved by a majority of the Company’s Board of Directors who were directors immediately prior to such Change in Control) then Independent Legal Counsel shall be selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld) and such Independent Legal Counsel shall determine whether the officer or director is entitled to indemnity payments and expense advances under this Agreement or any other agreement or Certificate of Incorporation or Bylaws of the Company now or hereafter in effect relating to claims for indemnifiable events. Such Independent Legal Counsel, among other things, shall render its written opinion to the Company and the Indemnitee as to whether and to what extent the Indemnitee will be permitted to be indemnified. The Company agrees to pay the reasonable fees of the Independent Legal Counsel and to indemnify fully such Independent Legal Counsel against any and all expenses (including attorneys’ fees), claims, liabilities and damages arising out of or relating to this Agreement or the engagement of Independent Legal Counsel pursuant hereto.

9. Establishment of Trust. In the event of a Potential Change in Control, the Company shall, upon written request by the Indemnitee, create a trust for the benefit of the Indemnitee and from time to time upon written request of the Indemnitee shall fund such trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for and defending any claim relating to an Indemnifiable Event, and any and all judgments, fines, penalties and settlement amounts of any and all claims relating to an Indemnifiable Event from time to time actually paid or claimed, reasonably anticipated or proposed to be paid. The amount or amounts to be deposited in the trust pursuant to the foregoing funding obligation shall be determined by a majority vote of a quorum of the Company's Directors excluding a Director who is the Indemnitee (the "Independent Directors"), in any case in which the Independent Legal Counsel referred to above is involved. The terms of the trust shall provide that upon a Change in Control (i) the trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the trustee shall advance, within five business days of a request by the Indemnitee, any and all expenses to the Indemnitee (and the Indemnitee hereby agrees to reimburse the trust under the circumstances under which the Indemnitee would be required to reimburse the Company under this Agreement, (iii) the trust shall continue to be funded by the Company in accordance with the funding obligation set forth above, (iv) the trustee shall promptly pay to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or other wise, and (v) all unexpended funds in such trust shall revert to the Company upon a final determination by the Independent Directors or a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified under the terms of this Agreement. The trustee shall be chosen by the Indemnitee. Nothing in this Section 9 shall relieve the Company of any of its obligations under this Agreement. All income earned on the assets held in the trust shall be reported as income by the Company for federal, state, local and foreign tax purposes.

10. Non-exclusivity, Etc. The rights of the Indemnitee hereunder shall be in addition to any other rights the Indemnitee may have under the Certificate of Incorporation or Bylaws of the Company or the Oklahoma Law or otherwise. To the extent that a change in the Oklahoma Law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Certificate of Incorporation and Bylaws of the Company and this Agreement, it is the intent of the parties hereto that the Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

11. No Construction as Employment Agreement. Nothing contained herein shall be construed as giving the Indemnitee any right to be retained in the employ of the Company or any of its subsidiaries.

12. Liability Insurance. To the extent the Company maintains a Policy (or Policies) providing directors' and officers' liability insurance, the Indemnitee shall be covered by such Policy (or Policies), in accordance with its (or their) terms, to the maximum extent of the coverage available for any Company director of officer.

13. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company or any affiliate of the Company against the Indemnitee, the Indemnitee's spouse, heirs, executors, administrators or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action such shorter period shall govern.

14. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suits to enforce such rights.

15. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any claim made against the Indemnitee to the extent the Indemnitee has otherwise actually received payment (under any Policy, Certificate of Incorporation or Bylaws of the Company or otherwise) of the amounts otherwise indemnifiable hereunder.

16. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument, but only one of which need be produced.

17. Headings. The headings of the Sections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

18. Use of Certain Terms. As used in this Agreement, the words "herein," "hereof," "hereunder," and other words of similar import refer to this Agreement as a whole and not to any particular paragraph, subparagraph or other subdivision.

19. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

20. Notice to Company. The Indemnitee agrees to promptly notify Company in writing upon being served with any summons, subpoena, citation, complaint, indictment, or other document relating to a suit, action or proceeding which is or may be covered hereunder, either civil or criminal.

21. Notices. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand by Federal Express, Purolator or other commercial courier and receipted for by or on behalf of the party to whom said notice or other communication shall have been directed or if (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to the Indemnitee, to address set forth following the Indemnitee's signature to this Agreement or to such other address as may have been furnished to Company by the Indemnitee by like notice;

(b) If to Company, to

Chesapeake Energy Corporation
6100 North Western Avenue
Oklahoma City, Oklahoma 73118

or to such other address as may have been furnished to the Indemnitee by Company by like notice.

22. Governing Law. The parties agree that this Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of Oklahoma.

23. Successors and Assigns. This Agreement shall be binding upon Company and its successors and assigns and shall inure to the benefit of the Indemnitee and her spouse, heirs, executors, administrators and estate.

24. Effective Date. Irrespective of the date of execution, this Agreement, and the terms and conditions hereof, shall be deemed to have become and remained effective and binding upon the parties hereto continuously since the date below written.

IN WITNESS WHEREOF, the Company has executed this Agreement by its duly authorized officers, and the Indemnitee has set his hand and seal hereto, on this 1st day of April, 2006.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

____
Aubrey K. McClendon, Chairman

Attest:

____
Corporate Secretary

(Corporate Seal]

INDEMNITEE: ______________________________

Exhibit 10.5

Named Executive Officer Compensation

Effective January 1, 2008, the Compensation Committee of the Board of Directors (the "Committee") of Chesapeake Energy Corporation set the 2008 annual base salaries of the named executive officers at $975,000 for Aubrey K. McClendon, $830,000 for Marcus C. Rowland, $830,000 for Steven C. Dixon, $775,000 for Douglas J. Jacobson and $750,000 for J. Mark Lester. In addition, the Committee awarded cash bonuses to the named executive officers, payable on January 18, 2008, of $950,000 for Aubrey K. McClendon, $625,000 for Marcus C. Rowland, $625,000 for Steven C. Dixon, $525,000 for Douglas J. Jacobson and $500,000 for J. Mark Lester.

CHESAPEAKE ENERGY CORPORATION
RATIOS OF EARNINGS TO FIXED CHARGES AND COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS
($ in millions)

	Year Ended December 31, 2003	Year Ended December 31, 2004	Year Ended December 31, 2005	Year Ended December 31, 2006	Year Ended December 31, 2007
EARNINGS:					
Income before income taxes and cumulative effect of accounting change	$ 501	$ 805	$ 1,493	$ 3,255	$ 2,341
Interest expense (a)	148	162	221	299	379
(Gain)/loss on investment in equity investees in excess of distributed earnings	—	(1)	1	(3)	21
Amortization of capitalized interest	3	5	10	19	39
Bond discount amortization (b)	—	—	—	—	—
Loan cost amortization	4	6	9	13	17
Earnings	$ 656	$ 977	$ 1,734	$ 3,583	$ 2,797
FIXED CHARGES:					
Interest expense	$ 148	$ 162	$ 221	$ 299	$ 379
Capitalized interest	13	36	79	179	269
Bond discount amortization (b)	—	—	—	—	—
Loan cost amortization	4	6	9	13	17
Fixed Charges	$ 165	$ 204	$ 309	$ 491	$ 665
Preferred Stock Dividends					
Preferred Dividend Requirements	$ 22	$ 40	$ 42	$ 89	$ 94
Ratio of income before provision for taxes to net income (c)	1.61	1.56	1.57	1.62	1.61
Subtotal – Preferred Dividends	$ 36	$ 62	$ 66	$ 144	$ 151
Combined Fixed Charges and Preferred Dividends	$ 201	$ 266	$ 375	$ 635	$ 816
Ratio of Earnings to Fixed Charges	4.0	4.8	5.6	7.3	4.2
Insufficient coverage	$ —	$ —	$ —	$ —	$ —
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	3.3	3.7	4.6	5.6	3.4
Insufficient coverage	$ —	$ —	$ —	$ —	$ —

(a) Excludes the effect on unrealized gains or losses on interest rate derivatives.
(b) Amortization of bond discount is excluded since it is included in interest expense.
(c) Amounts of income before provision for taxes and of net income exclude the cumulative effect of accounting change.

Exhibit 21

SUBSIDIARIES
OF
CHESAPEAKE ENERGY CORPORATION
Oklahoma Corporation

Corporations	State of Organization
Chesapeake Energy Louisiana Corporation	Oklahoma
Chesapeake Energy Marketing, Inc.	Oklahoma
Chesapeake Operating, Inc.	Oklahoma
Diamond Y Enterprise, Incorporated	Pennsylvania
Gene D. Yost & Son, Inc.	Oklahoma
Nomac Drilling Corporation	Oklahoma

Limited Liability Companies	State of Formation
Bluestem Gas Services, L.L.C.	Oklahoma
Carmen Acquisition, L.L.C.	Oklahoma
Chesapeake Appalachia, L.L.C.	Oklahoma
Chesapeake Exploration, L.L.C.	Oklahoma
Chesapeake Land Company, L.L.C.	Oklahoma
Chesapeake Royalty, L.L.C.	Oklahoma
CHK Holdings, L.L.C.	Oklahoma
Gothic Production, L.L.C.	Oklahoma
Hawg Hauling & Disposal, LLC	Delaware
Hodges Trucking Company, L.L.C.	Oklahoma
MC Mineral Company, L.L.C.	Oklahoma
MidCon Compression, L.L.C.	Oklahoma

Partnerships	
Chesapeake Louisiana, L.P.	Oklahoma

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-84258, 33-89282, 33-88196, 333-07255, 333-27525, 333-30324, 333-46129, 333-30478, 333-52668, 333-67734, 333-67740, 333-109162, 333-118312, 333-118325, 333-126191, 333-135949 and 333-143990) and Form S-3 (File Nos. 333-130196 and 333-142720) of Chesapeake Energy Corporation of our report dated February 29, 2008 relating to the consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Tulsa, Oklahoma
February 29, 2008

Exhibit 23.2

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

As independent oil and gas consultants, Netherland, Sewell & Associates hereby consents to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-84258, 33-89282, 33-88196, 333-07255, 333-27525, 333-30324, 333-46129, 333-30478, 333-52668, 333-67734, 333-67740, 333-109162, 333-118312, 333-118325, 333-126191, 333-135949 and 333-143990) and Form S-3 (File Nos. 333-130196 and 333-142720) of Chesapeake Energy Corporation of information from our reserve report dated February 27, 2008, entitled “Estimate of Reserves and Future Revenue to the Chesapeake Energy Corporation Interest in Certain Oil and Gas Properties located in Louisiana, New Mexico, Oklahoma and Texas as of December 31, 2007, based on Constant Prices and Costs in accordance with U.S. Securities and Exchange Commission Guidelines” and all references to our firm included in or made a part of the Chesapeake Energy Corporation Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about February 28, 2008.

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: /s/ G. Lance Binder, P.E.
G. Lance Binder, P.E.
Executive Vice President

Dallas, Texas
February 28, 2008

EXHIBIT 23.3

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

As independent oil and gas consultants, Data & Consulting Services Division of Schlumberger Technology Corporation hereby consents to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-84258, 33-89282, 33-88196, 333-07255, 333-27525, 333-30324, 333-46129, 333-30478, 333-52668, 333-67734, 333-67740, 333-109162, 333-118312, 333-118325, 333-126191, 333-135949 and 333-143990) and Form S-3 (File Nos. 333-130196 and 333-142720) of Chesapeake Energy Corporation of information from our reserve report dated 22 February, 2008, entitled “Reserve and Economic Evaluation of Proved Reserves of Certain Chesapeake Energy Corporation Oil & Gas Properties As of 31 December 2007 ” and all references to our firm included in or made a part of the Chesapeake Energy Corporation Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about February 28, 2008.

DATA & CONSULTING SERVICES
DIVISION OF SCHLUMBERGER TECHNOLOGY CORPORATION

/s/ Charles M. Boyer II, PG, CPG, CCG

Name: Charles M. Boyer II, PG, CPG, CCG
Title: Operations Manager
Pittsburg Consulting Services

February 28, 2008

Exhibit 23.4

CONSENT OF LEE KEELING AND ASSOCIATES, INC.

As independent oil and gas consultants, Lee Keeling and Associates, Inc. hereby consents to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-84258, 33-89282, 33-88196, 333-07255, 333-27525, 333-30324, 333-46129, 333-30478, 333-52668, 333-67734, 333-67740, 333-109162, 333-118312, 333-118325, 333-126191, 333-135949 and 333-143990) and Form S-3 (File Nos. 333-130196 and 333-142720) of Chesapeake Energy Corporation of information from our reserve report dated February 14, 2008, entitled “Estimated Oil and Gas Properties Interest Owned by Chesapeake Energy Corporation Selected Properties Constant Prices and Expenses Effective Date January 1, 2008” and all references to our firm included in or made a part of the Chesapeake Energy Corporation Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about February 28, 2008.

By: /s/ LEE KEELING AND ASSOCIATES, INC.
LEE KEELING AND ASSOCIATES, INC.

Tulsa, Oklahoma
February 28, 2008

Exhibit 23.5

CONSENT OF RYDER SCOTT COMPANY, L.P.

As independent oil and gas consultants, Ryder Scott Company, L.P. hereby consents to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-84258, 33-89282, 33-88196, 333-07255, 333-27525, 333-30324, 333-46129, 333-30478, 333-52668, 333-67734, 333-67740, 333-109162, 333-118312, 333-118325, 333-126191, 333-135949 and 333-143990) and Form S-3 (File Nos. 333-130196 and 333-142720) of Chesapeake Energy Corporation of information from our reserve report dated February 28, 2008, entitled "Chesapeake Energy Corporation – Estimated Future Reserves and Income Attributable to Certain Leasehold Interests (SEC Parameters)" and all references to our firm included in or made a part of the Chesapeake Energy Corporation Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about February 28, 2008.

By: RYDER SCOTT COMPANY, L.P.
RYDER SCOTT COMPANY, L.P.

Houston, Texas
February 28, 2008

Exhibit 23.6

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

As independent oil and gas consultants, LaRoche Petroleum Consultants, Ltd. hereby consents to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-84258, 33-89282, 33-88196, 333-07255, 333-27525, 333-30324, 333-46129, 333-30478, 333-52668, 333-67734, 333-67740, 333-109162, 333-118312, 333-118325, 333-126191, 333-135949 and 333-143990) and Form S-3 (File Nos. 333-130196 and 333-142720) of Chesapeake Energy Corporation of information from our reserve report dated February 19, 2008, entitled "Estimate of Reserves and Future Cash Flow to the Chesapeake Energy Corporation Interest in certain properties located in various Arkoma and Sahara Regions as of December 31, 2007, Prepared in Accordance with Securities and Exchange Commission Guidelines" and all references to our firm included in or made a part of the Chesapeake Energy Corporation Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about February 28, 2008.

LAROCHE PETROLEUM CONSULTANTS, LTD.

By: /s/ William M. Kazmann
Name: William M. Kazmann
Title: Senior Partner

Dallas, Texas
February 28, 2008

Exhibit 31.1

CERTIFICATION

I, Aubrey K. McClendon, certify that:

1. I have reviewed this annual report on Form 10-K of Chesapeake Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2008

/s/ AUBREY K. MCCLENDON
Aubrey K. McClendon
Chairman of the Board and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Marcus C. Rowland, certify that:

1. I have reviewed this annual report on Form 10-K of Chesapeake Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2008

/s/ MARCUS C. ROWLAND
Marcus C. Rowland
Executive Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Chesapeake Energy Corporation (the “Company”) on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Aubrey K. McClendon, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 29, 2008

/s/ AUBREY K. MCCLENDON
Aubrey K. McClendon
Chairman of the Board and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Chesapeake Energy Corporation (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marcus C. Rowland, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 29, 2008

/s/ MARCUS C. ROWLAND
Marcus C. Rowland
Executive Vice President and Chief Financial Officer