

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 1997

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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)

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 X NO

--- ---

At October 31, 1997 there were 70,429,017 shares of the registrant's \$.01 par value Common Stock outstanding.

## PART I. FINANCIAL INFORMATION

Page  
----

Item 1.	Consolidated Financial Statements:	
	Consolidated Balance Sheets at September 30, 1997 and June 30, 1997.....	3
	Consolidated Statements of Operations for the Three Months Ended September 30, 1997 and 1996 .....	4
	Consolidated Statements of Cash Flows for the Three Months Ended September 30, 1997 and 1996 .....	5
	Notes to Consolidated Financial Statements .....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....	18

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

ASSETS	September 30, 1997	June 30, 1997
	-----	-----
	(\$ in thousands)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 51,182	\$ 124,017
Restricted cash	4,600	--
Short-term investments	85,478	104,485
Accounts receivable:		
Oil and gas	24,285	30,845
Joint interest and other, net of allowances of \$346,000 and \$387,000, respectively	27,363	25,311
Related parties	7,299	7,401
Note receivable	18,000	--
Inventory	4,625	4,854
Other	941	692
	-----	-----
Total Current Assets	223,773	297,605
	-----	-----
<b>PROPERTY AND EQUIPMENT:</b>		
Oil and gas properties, at cost based on full cost accounting:		
Evaluated oil and gas properties	960,741	865,516
Unevaluated properties	131,194	128,505
Less: accumulated depreciation, depletion and amortization	(460,534)	(431,983)
	-----	-----
	631,401	562,038
Other property and equipment	63,652	50,379
Less: accumulated depreciation and amortization	(5,754)	(5,051)
	-----	-----
Total Property and Equipment	689,299	607,366
	-----	-----
<b>OTHER ASSETS</b>	18,597	44,097
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 931,669</b>	<b>\$ 949,068</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable and current maturities of long-term debt	\$ --	\$ 1,380
Accounts payable	81,731	86,817
Accrued liabilities and other	18,532	28,701
Revenues and royalties due others	23,686	29,428
	-----	-----
Total Current Liabilities	123,949	146,326
	-----	-----
<b>LONG-TERM DEBT, NET</b>	<b>508,971</b>	<b>508,950</b>
	-----	-----
<b>REVENUES AND ROYALTIES DUE OTHERS</b>	<b>7,541</b>	<b>6,903</b>
	-----	-----
<b>DEFERRED INCOME TAXES</b>	<b>--</b>	<b>--</b>
	-----	-----
<b>CONTINGENCIES AND COMMITMENTS</b>	<b>--</b>	<b>--</b>
	-----	-----
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred Stock, \$.01 par value, 10,000,000 shares authorized; none issued	--	--
Common Stock, \$.01 par value, 100,000,000 shares authorized; 70,376,462 and 70,276,975 shares issued and outstanding at September 30, 1997 and June 30, 1997, respectively	704	703

Paid-in capital	433,201	432,991
Accumulated earnings (deficit)	(142,697)	(146,805)
	-----	-----
Total Stockholders' Equity	291,208	286,889
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 931,669	\$ 949,068
	=====	=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	----- 1997	1996 -----
	(\$ in thousands, except per share data)	
<b>REVENUES:</b>		
Oil and gas sales	\$45,667	\$36,753
Oil and gas marketing sales	26,865	12,184
Interest and other	5,878	848
	-----	-----
Total Revenues	78,410	49,785
	-----	-----
<b>COSTS AND EXPENSES:</b>		
Production expenses and taxes	5,180	2,530
Oil and gas marketing expenses	26,690	11,866
Oil and gas depreciation, depletion and amortization	28,550	17,029
Depreciation and amortization of other assets	1,142	952
General and administrative	2,760	1,671
Interest	8,575	2,817
	-----	-----
Total Costs and Expenses	72,897	36,865
	-----	-----
INCOME BEFORE INCOME TAXES	5,513	12,920
<b>INCOME TAX EXPENSE:</b>		
Current	--	--
Deferred	--	4,716
	-----	-----
Total Income Tax Expense	--	4,716
	-----	-----
NET INCOME	\$ 5,513	\$ 8,204
	=====	=====
<b>NET INCOME PER COMMON SHARE:</b>		
PRIMARY	\$ .08	\$ .13
	=====	=====
FULLY-DILUTED	\$ .08	\$ .13
	=====	=====
<b>WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:</b>		
PRIMARY	72,699	64,258
	=====	=====
FULLY-DILUTED	73,243	64,338
	=====	=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	
	1997	1996
	-----	-----
	(\$ in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
NET INCOME	\$ 5,513	\$ 8,204
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Depreciation, depletion and amortization	29,297	17,545
Deferred taxes	--	4,716
Amortization of loan costs	395	436
Amortization of bond discount	20	142
(Gain) loss on sale of assets	(2,695)	6
Bad debt expense	25	--
Equity in earnings of investees	140	--
Other adjustments	--	(206)
<b>CHANGES IN CURRENT ASSETS AND LIABILITIES</b>	<b>9,929</b>	<b>(4,890)</b>
	-----	-----
Cash provided by operating activities	42,624	25,953
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Exploration, development and acquisition of oil and gas properties	(99,095)	(87,350)
Proceeds from sale of assets and other	1,190	8,642
Investment in service operations	--	(2,545)
Other investments	(3,000)	--
Additions to property, equipment and other	(13,360)	(1,870)
	-----	-----
Cash used in investing activities	(114,265)	(83,123)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid on common stock	(1,405)	--
Proceeds from long-term borrowings	--	10,000
Payments on long-term borrowings	--	(2,135)
Cash received from exercise of stock options	226	191
Other	(15)	(80)
	-----	-----
Cash provided by (used in) financing activities	(1,194)	7,976
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(72,835)	(49,194)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	124,017	51,638
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 51,182	\$ 2,444
	=====	=====

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 1997  
(unaudited)

1. Interim Financial Statements

The accompanying unaudited consolidated financial statements of Chesapeake Energy Corporation and Subsidiaries (the "Company") have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods have been reflected. The results for the three months ended September 30, 1997, are not necessarily indicative of the results for the full fiscal year.

2. Recent Events

On October 22, 1997 the Company announced that it had agreed to acquire two Oklahoma City-based independent oil and gas producers that own total proved reserves of approximately 160 billion cubic feet of natural gas equivalent ("Bcfe"). In the larger of the two acquisitions, the Company has reached an agreement to acquire by merger the Mid-Continent operations of DLB Oil & Gas, Inc. ("DLB"). In its Mid-Continent division, DLB owns approximately 130 Bcfe of proved reserves, additional probable and possible reserves, nine gas gathering systems, and a gas marketing subsidiary based in Houston, Texas. The DLB acquisition is valued at approximately \$150 million. The Company also reached an agreement to acquire AnSon Production Company ("AnSon"), a privately owned oil and gas producer that owns approximately 30 Bcfe of proved reserves, additional probable and possible reserves, undeveloped mineral interests, and a gas marketing subsidiary based in Oklahoma City. The AnSon acquisition is valued at approximately \$43 million.

On November 13, 1997, the Company announced that it had signed a definitive agreement to merge with Hugoton Energy Corporation ("Hugoton") in a stock-for-stock transaction. The merger agreement provides for a fixed exchange ratio of 1.3 shares of the Company's common stock for each share of Hugoton stock, resulting in Hugoton's shareholders owning approximately 26% of the Company following the transaction. Based upon the closing price of the Company's common stock on November 12, 1997, Hugoton's 20.9 million fully-diluted shares outstanding, and the assumption by the Company of \$105 million of Hugoton's debt, the transaction is valued at approximately \$380 million. Hugoton has approximately 300 Bcfe of proved reserves.

On November 13, 1997, the Company also announced that it had entered into an agreement to purchase from Pan East Petroleum Corporation, a Canadian exploration and production company ("Pan East"), 11.9 million treasury shares of Pan East's common stock at a price per share of \$2.50 (Cdn) in a private placement. Based on Pan East's existing 48 million outstanding shares and the Company's previous open market purchase of 100,000 Pan East shares, the Company will own approximately 12 million shares, or 19.9% of Pan East's outstanding common stock, for an investment of \$30 million (Cdn), or \$22 million (U.S.). The purpose of the private placement is to assist Pan East in financing its share of the exploration, development and acquisition activities under a proposed joint venture with the Company during the next two years. Both the private placement and the joint venture are scheduled to close on or before November 30, 1997.

In November 1997, the Company received proceeds of approximately \$108 million in connection with the initial public offering of Bayard Drilling Technologies, Inc. ("Bayard") common stock. After underwriting fees, the Company received approximately \$21.40 per share for the 4,194,000 shares of Bayard it sold in the offering. In addition, the Company received \$18 million as repayment of a loan made to Bayard during fiscal 1997. The sale of stock is expected to yield a pre-tax gain of approximately \$74 million.

The Company recently announced its decision to change its year-end to December 31. The Company believes this change will make its financial results more easily comparable to those of its peer group. Accordingly, the Company will file a transition report on Form 10-K for the six month period between the closing date of the Company's most recent fiscal year ended June 30, 1997 and the opening date of the new fiscal year beginning January 1, 1998.

### 3. Legal Proceedings

On October 15, 1996, Union Pacific Resources Company ("UPRC") filed suit against the Company in the U.S. District Court for the Northern District of Texas, Fort Worth Division alleging (a) infringement and inducing infringement of UPRC's claim to a patent (the "UPRC Patent") for an invention involving a method of maintaining a borehole in a stratigraphic zone during drilling, and (b) tortious interference with certain business relations between UPRC and certain of its former employees. UPRC's claims against the Company are based on services provided by a third party vendor to the Company. UPRC is seeking injunctive relief, damages of an unspecified amount, including actual, enhanced, consequential and punitive damages, interest, costs and attorney's fees. The Company believes that it has meritorious defenses to UPRC's allegations and has requested the court to declare the UPRC Patent invalid. The Company has also filed a motion to limit the scope of UPRC's claims and for summary judgment. No prediction can be made as to the outcome of the matter.

As previously disclosed, the Company and certain of its officers and directors are currently involved in various purported class actions alleging violations of the Securities Exchange Act of 1934. The plaintiffs assert that the defendants made materially false and misleading statements and failed to disclose material facts about the success of the Company's exploration efforts, principally in the Louisiana Trend. As a result, the complaints allege, the price of the Company's common stock was artificially inflated during periods beginning as early as January 25, 1996 and ending on June 27, 1997, when the Company issued a press release announcing disappointing drilling results in the Louisiana Trend and a full-cost ceiling writedown to be reflected in its June 30, 1997 financial statements. The plaintiffs further allege that certain of the named individual defendants sold common stock during the class period when they knew or should have known adverse nonpublic information. Each case seeks a determination that the suit is a proper class action, certification of the plaintiff as a class representative and damages in an unspecified amount, together with costs of litigation, including attorneys' fees. The Company and the individual defendants believe that these actions are without merit, and intend to defend against them vigorously.



#### 4. Restricted Cash

The Company is required to deposit margin cash with the counterparty to certain hedging arrangements when commodity futures prices exceed the index-related fixed price stated in the agreement less the amount of open credit established by the counterparty. The amount of restricted margin cash on deposit at September 30, 1997 was \$4.6 million.

#### 5. Senior Notes

##### 10 1/2% Notes

The Company has outstanding \$90 million in aggregate principal amount of 10 1/2% Notes which mature June 1, 2002. The 10 1/2% Notes bear interest at an annual rate of 10 1/2%, payable semiannually on each June 1 and December 1. The 10 1/2% Notes are senior, unsecured obligations of the Company and are fully and unconditionally guaranteed, jointly and severally, by certain subsidiaries of the Company (the "Guarantor Subsidiaries").

##### 9 1/8% Notes

The Company has outstanding \$120 million in aggregate principal amount of 9 1/8% Senior Notes which mature April 15, 2006. The 9 1/8% Notes bear interest at an annual rate of 9 1/8%, payable semiannually on each April 15 and October 15. The 9 1/8% Notes are senior, unsecured obligations of the Company and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

##### 7 7/8% Notes

The Company has outstanding \$150 million in aggregate principal amount of 7 7/8% Senior Notes which mature March 15, 2004. The 7 7/8% Notes bear interest at the rate of 7 7/8%, payable semiannually on each March 15 and September 15. The 7 7/8% Notes are senior, unsecured obligations of the Company and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

##### 8 1/2% Notes

The Company has outstanding \$150 million in aggregate principal amount of 8 1/2% Senior Notes which mature March 15, 2012. The 8 1/2% Notes bear interest at the rate of 8 1/2%, payable semiannually on each March 15 and September 15. The 8 1/2% Notes are senior, unsecured obligations of the Company and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

Set forth below are condensed consolidating financial statements of the Guarantor Subsidiaries, the Company's subsidiaries which are not guarantors

of the Senior Notes (the "Non-Guarantor Subsidiaries") and the Company. Separate audited financial statements of each Guarantor Subsidiary have not been provided because management has determined that they are not material to investors. The Guarantor Subsidiaries are Chesapeake Operating, Inc., Chesapeake Exploration Limited Partnership, Chesapeake Louisiana Limited Partnership, Chesapeake Energy Louisiana Corporation and Chesapeake Gas Development Corporation, and the Non-Guarantor Subsidiaries are Chesapeake Energy Marketing, Inc. and Chesapeake Canada Corporation. Prior to June 30, 1997 Chesapeake Gas Development Corporation was a Non-Guarantor Subsidiary.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1997  
 (unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET  
 AS OF SEPTEMBER 30, 1997  
 (\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ (6,345)	\$ 6,651	\$ 50,876	\$ --	\$ 51,182
Restricted cash	4,600	--	--	--	4,600
Short-term investments	--	2,026	83,452	--	85,478
Accounts receivable, net	44,732	17,786	2,058	(5,629)	58,947
Notes receivable	--	--	18,000	--	18,000
Inventory	4,521	104	--	--	4,625
Other	904	22	15	--	941
	-----	-----	-----	-----	-----
Total Current Assets	48,412	26,589	154,401	(5,629)	223,773
	-----	-----	-----	-----	-----
PROPERTY AND EQUIPMENT:					
Oil and gas properties	960,690	51	--	--	960,741
Unevaluated leasehold	131,200	(6)	--	--	131,194
Other property and equipment	48,009	349	15,294	--	63,652
Less: accumulated depreciation, depletion and amortization	(465,432)	--	(856)	--	(466,288)
	-----	-----	-----	-----	-----
Total Property & Equipment	674,467	394	14,438	--	689,299
	-----	-----	-----	-----	-----
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	81,755	--	791,374	(873,129)	--
	-----	-----	-----	-----	-----
OTHER ASSETS	4,950	653	12,994	--	18,597
	-----	-----	-----	-----	-----
TOTAL ASSETS	\$ 809,584	\$ 27,636	\$ 973,207	\$(878,758)	\$ 931,669
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	\$ --	\$ --	\$ --	\$ --	\$ --
Accounts payable and other	101,776	16,783	11,023	(5,633)	123,949
	-----	-----	-----	-----	-----
Total Current Liabilities	101,776	16,783	11,023	(5,633)	123,949
	-----	-----	-----	-----	-----
LONG-TERM DEBT	--	--	508,971	--	508,971
	-----	-----	-----	-----	-----
REVENUES PAYABLE	7,541	--	--	--	7,541
	-----	-----	-----	-----	-----
DEFERRED INCOME TAXES	--	--	--	--	--
	-----	-----	-----	-----	-----
INTERCOMPANY PAYABLES	784,903	(301)	--	(784,602)	--
	-----	-----	-----	-----	-----
STOCKHOLDERS' EQUITY:					
Common Stock	10	1	694	(1)	704
Other	(84,646)	11,153	452,519	(88,522)	290,504
	-----	-----	-----	-----	-----
Total Stockholders' Equity	(84,636)	11,154	453,213	(88,523)	291,208
	-----	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 809,584	\$ 27,636	\$ 973,207	\$(878,758)	\$ 931,669
	=====	=====	=====	=====	=====



CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1997  
 (unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET  
 AS OF JUNE 30, 1997  
 (\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ (6,534)	\$ 4,363	\$ 126,188	\$ --	\$ 124,017
Short-term investments	--	4,324	100,161	--	104,485
Accounts receivable, net	47,379	19,943	3,022	(6,787)	63,557
Inventory	4,795	59	--	--	4,854
Other	666	26	--	--	692
	-----	-----	-----	-----	-----
Total Current Assets	46,306	28,715	229,371	(6,787)	297,605
	-----	-----	-----	-----	-----
PROPERTY AND EQUIPMENT:					
Oil and gas properties	865,485	31	--	--	865,516
Unevaluated leasehold	128,519	(14)	--	--	128,505
Other property and equipment	33,486	1,904	14,989	--	50,379
Less: accumulated depreciation, depletion and amortization	(436,276)	--	(758)	--	(437,034)
	-----	-----	-----	-----	-----
Total Property & Equipment	591,214	1,921	14,231	--	607,366
	-----	-----	-----	-----	-----
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	817	--	680,439	(681,256)	--
	-----	-----	-----	-----	-----
OTHER ASSETS	4,961	673	38,463	--	44,097
	-----	-----	-----	-----	-----
TOTAL ASSETS	\$ 643,298	\$ 31,309	\$ 962,504	\$(688,043)	\$ 949,068
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	\$ 1,380	\$ --	\$ --	\$ --	\$ 1,380
Accounts payable and other	122,241	17,527	11,965	(6,787)	144,946
	-----	-----	-----	-----	-----
Total Current Liabilities	123,621	17,527	11,965	(6,787)	146,326
	-----	-----	-----	-----	-----
LONG-TERM DEBT	--	--	508,950	--	508,950
	-----	-----	-----	-----	-----
REVENUES PAYABLE	6,903	--	--	--	6,903
	-----	-----	-----	-----	-----
DEFERRED INCOME TAXES	--	--	--	--	--
	-----	-----	-----	-----	-----
INTERCOMPANY PAYABLES	589,111	1,492	--	(590,603)	--
	-----	-----	-----	-----	-----
STOCKHOLDERS' EQUITY:					
Common Stock	11	1	693	(2)	703
Other	(76,348)	12,289	440,896	(90,651)	286,186
	-----	-----	-----	-----	-----
Total Stockholders' Equity	(76,337)	12,290	441,589	(90,653)	286,889
	-----	-----	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 643,298	\$ 31,309	\$ 962,504	\$(688,043)	\$ 949,068

=====

=====

=====

=====

=====

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1997  
 (unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS  
 (\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	COMPANY (PARENT)	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----	-----
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1997:					
REVENUES:					
Oil and gas sales	\$ 45,049	\$ --	\$ --	\$ 618	\$ 45,667
Oil and gas marketing sales	--	44,326	--	(17,461)	26,865
Interest and other	135	487	20,118	(14,862)	5,878
	-----	-----	-----	-----	-----
Total Revenues	45,184	44,813	20,118	(31,705)	78,410
	-----	-----	-----	-----	-----
COSTS AND EXPENSES:					
Production expenses and taxes	5,180	--	--	--	5,180
Oil and gas marketing expenses	--	43,533	--	(16,843)	26,690
Oil and gas depreciation, depletion and amortization	28,550	--	--	--	28,550
Other depreciation and amortization	628	21	493	--	1,142
General and administrative	2,578	265	(83)	--	2,760
Interest	12,246	33	11,158	(14,862)	8,575
	-----	-----	-----	-----	-----
Total Costs & Expenses	49,182	43,852	11,568	(31,705)	72,897
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(3,998)	961	8,550	--	5,513
INCOME TAX EXPENSE (BENEFIT)	--	--	--	--	--
	-----	-----	-----	-----	-----
NET INCOME (LOSS)	\$ (3,998)	\$ 961	\$ 8,550	\$ --	\$ 5,513
	=====	=====	=====	=====	=====
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1996:					
REVENUES:					
Oil and gas sales	\$ 34,789	\$ 1,691	\$ --	\$ 273	\$ 36,753
Oil and gas marketing sales	--	21,914	--	(9,730)	12,184
Interest and other	115	409	324	--	848
	-----	-----	-----	-----	-----
Total Revenues	34,904	24,014	324	(9,457)	49,785
	-----	-----	-----	-----	-----
COSTS AND EXPENSES:					
Production expenses and taxes	2,347	183	--	--	2,530
Oil and gas marketing expenses	--	21,323	--	(9,457)	11,866
Oil and gas depreciation, depletion and amortization	16,373	656	--	--	17,029
Other depreciation and amortization	534	31	387	--	952
General and administrative	1,173	236	262	--	1,671
Interest	33	105	2,679	--	2,817
	-----	-----	-----	-----	-----
Total Costs & Expenses	20,460	22,534	3,328	(9,457)	36,865
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAX	14,444	1,480	(3,004)	--	12,920
INCOME TAX EXPENSE (BENEFIT)	5,272	540	(1,096)	--	4,716
	-----	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 9,172	\$ 940	\$ (1,908)	\$ --	\$ 8,204
	=====	=====	=====	=====	=====

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 1997  
 (unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS  
 (\$ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES -----	NON-GUARANTOR SUBSIDIARIES -----	COMPANY (PARENT) -----	CONSOLIDATED -----
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1997:				
CASH FLOWS FROM OPERATING ACTIVITIES:	\$ 647	\$ 6,108	\$ 35,869	\$ 42,624
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Oil and gas properties	(99,067)	(28)	--	(99,095)
Proceeds from sale of assets	1,190	--	--	1,190
Other investments	--	--	(3,000)	(3,000)
Other additions	(14,590)	1,555	(325)	(13,360)
	-----	-----	-----	-----
	(112,467)	1,527	(3,325)	(114,265)
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash received from exercise of stock options	--	--	226	226
Dividends paid on common stock	--	--	(1,405)	(1,405)
Other	--	(15)	--	(15)
Intercompany advances, net	112,009	(5,332)	(106,677)	--
	-----	-----	-----	-----
	112,009	(5,347)	(107,856)	(1,194)
	-----	-----	-----	-----
Net increase (decrease) in cash	189	2,288	(75,312)	(72,835)
Cash, beginning of period	(6,534)	4,363	126,188	124,017
	-----	-----	-----	-----
Cash, end of period	\$ (6,345)	\$ 6,651	\$ 50,876	\$ 51,182
	=====	=====	=====	=====
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1996:				
CASH FLOWS FROM OPERATING ACTIVITIES:	\$ 27,667	\$ 222	\$ (1,936)	\$ 25,953
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Oil and gas properties	(87,341)	(9)	--	(87,350)
Proceeds from sales	8,642	--	--	8,642
Investment in service operations	(2,545)	--	--	(2,545)
Other additions	(1,196)	(49)	(625)	(1,870)
	-----	-----	-----	-----
	(82,440)	(58)	(625)	(83,123)
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from long-term borrowings	10,000	--	--	10,000
Payments on borrowings	(1,230)	(900)	(5)	(2,135)
Cash received from exercise of stock options	--	--	191	191
Other	--	--	(80)	(80)
Intercompany advances, net	29,970	3,984	(33,954)	--
	-----	-----	-----	-----
	38,740	3,084	(33,848)	7,976
	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(16,033)	3,248	(36,409)	(49,194)
Cash, beginning of period	4,061	2,751	44,826	51,638
	-----	-----	-----	-----
Cash, end of period	\$ (11,972)	\$ 5,999	\$ 8,417	\$ 2,444
	=====	=====	=====	=====



PART I. FINANCIAL INFORMATION  
ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

RECENT EVENTS

On October 22, 1997, the Company announced that it had agreed to acquire two Oklahoma City-based independent oil and gas producers that own total proved reserves of approximately 160 billion cubic feet of natural gas equivalent ("Bcfe"). In the larger of the two acquisitions, the Company has reached an agreement to acquire by merger the Mid-Continent operations of DLB Oil & Gas, Inc. ("DLB"). In its Mid-Continent division, DLB owns approximately 130 Bcfe of proved reserves, additional probable and possible reserves, nine gas gathering systems, and a gas marketing subsidiary based in Houston, Texas. The DLB acquisition is valued at approximately \$150 million. The Company also reached an agreement to acquire AnSon Production Company ("AnSon"), a privately owned oil and gas producer that owns approximately 30 Bcfe of proved reserves, additional probable and possible reserves, undeveloped mineral interests, and a gas marketing subsidiary based in Oklahoma City. The AnSon acquisition is valued at approximately \$43 million.

On November 13, 1997, the Company announced that it had signed a definitive agreement to merge with Hugoton Energy Corporation ("Hugoton") in a stock-for-stock transaction. The merger agreement provides for a fixed exchange ratio of 1.3 shares of the Company's common stock for each share of Hugoton stock, resulting in Hugoton's shareholders owning approximately 26% of the Company following the transaction. Based upon the closing price of the Company's common stock on November 12, 1997, Hugoton's 20.9 million fully-diluted shares outstanding, and the assumption by the Company of \$105 million of Hugoton's debt, the transaction is valued at approximately \$380 million. Hugoton has approximately 300 Bcfe of proved reserves.

On November 13, 1997, the Company also announced that it had entered into an agreement to purchase from Pan East Petroleum Corporation, a Canadian exploration and production company ("Pan East"), 11.9 million treasury shares of Pan East's common stock at a price per share of \$2.50 (Cdn) in a private placement. Based on Pan East's existing 48 million outstanding shares and the Company's previous open market purchase of 100,000 Pan East shares, the Company will own approximately 12 million shares, or 19.9% of Pan East's outstanding common stock, for an investment of \$30 million (Cdn), or \$22 million (U.S.). The purpose of the private placement is to assist Pan East in financing its share of the exploration, development and acquisition activities under a proposed joint venture with the Company during the next two years. Both the private placement and the joint venture are scheduled to close on or before November 30, 1997.

In November 1997, the Company received proceeds of approximately \$108 million in connection with the initial public offering of Bayard Drilling Technologies, Inc. ("Bayard") common stock. After underwriting fees, the Company received approximately \$21.40 per share for the 4,194,000 shares of Bayard it sold in the offering. In addition, the Company received \$18 million as repayment of a loan made to Bayard during fiscal 1997. The sale of stock is expected to yield a pre-tax gain of approximately \$74 million.

The Company recently announced its decision to change its year-end to December 31. The Company believes this change will make its financial results more easily comparable to those of its peer group. Accordingly, the Company will file a transition report on Form 10-K for the six month period between the closing date of the Company's most recent fiscal year ended June 30, 1997 and the opening date of the new fiscal year beginning January 1, 1998 (the "Transition Period").

THREE MONTHS ENDED SEPTEMBER 30, 1997 VS. SEPTEMBER 30, 1996

Net income for the three months ended September 30, 1997 (the "Current Quarter") was \$5.5 million, a \$2.7 million decrease from net income of \$8.2 million for the quarter ended September 30, 1996 (the "Prior Quarter"). This decrease was caused primarily by the Company's higher oil and gas production expenses, depreciation, depletion and amortization of oil and gas properties, and interest expenses in the Current Quarter, offset by higher oil and gas revenues resulting from higher production and higher gas prices and increases in interest and other income.

Revenues from oil and gas sales for the Current Quarter were \$45.7 million, an increase of \$8.9 million, or 24%, from the Prior Quarter. Gas production decreased to 13.9 billion cubic feet ("Bcf"), a decrease of 1.4 Bcf, or 9%, compared to the Prior Quarter. Oil production increased 372 thousand barrels ("MBbls"), or 75%, from 498 MBbls to 870 MBbls. In the Current Quarter, the Company received an average oil price of \$18.48 per barrel ("Bbl") (net of hedging losses of \$0.2 million), a decrease of \$2.71 per Bbl, or 13%, from the \$21.19 per Bbl realized in the Prior Quarter. Gas price realizations increased to \$2.12 per thousand cubic feet (AMcf@) in the Current Quarter inclusive of

hedging gains of \$0.6 million, an increase of 24% from the \$1.71 per Mcf realized in the Prior Quarter.

The following table sets forth oil and gas production for the Company's primary operating areas during the Current Quarter.

Operating Areas	Producing Wells(a)	Oil (MBls)	Gas (MMcf)	Total (MMcfe)	Percent %
-----	-----	-----	-----	-----	-----
Giddings	220	114	8,532	9,216	48%
Louisiana Trend	67	460	1,817	4,577	24%
Oklahoma	277	185	3,168	4,278	22%
All Other	100	111	424	1,090	6%
	-----	-----	-----	-----	-----
Total	664	870	13,941	19,161	100%
	=====	=====	=====	=====	=====

(a) Includes wells being drilled at September 30, 1997

Revenues from the Company's oil and gas marketing operations in the Current Quarter were \$26.9 million as compared to \$12.2 million in the Prior Quarter. Oil and gas marketing expenses were \$26.7 million and \$11.9 million in the Current Quarter and Prior Quarter, respectively, resulting in a gross profit margin of \$0.2 million and \$0.3 million, respectively.

Production expenses and taxes increased to \$5.2 million in the Current Quarter from \$2.5 million in the Prior Quarter. This increase was the result of a significant increase in oil sales volumes during the Current Quarter as well as significantly higher lifting costs in the Louisiana Trend. On a gas equivalent production unit ("Mcf") basis, production expenses and taxes were \$0.27 per Mcfe in the Current Quarter compared to \$0.14 per Mcfe in the Prior Quarter. The Company expects that operating costs during the remainder of the Transition Period and during 1998 will increase because of the Company's increased drilling efforts in the Louisiana Trend and the Williston Basin, both of which are oil prone areas with significant associated water production which results in higher operating costs than gas prone areas, higher lifting costs associated with production to be acquired from Hugoton, DLB and AnSon, and reduced severance tax exemptions as compared to existing exemptions in the Giddings Field.

Depreciation, depletion and amortization ("DD&A") of oil and gas properties for the Current Quarter was \$28.6 million, an increase of \$11.6 million from the Prior Quarter. The increase in DD&A expense for oil and gas properties between quarters is the result of a 0.8 Bcfe increase in sales volumes and an increase in the DD&A rate per Mcfe. The average DD&A rate per Mcfe, a function of capitalized and estimated future development costs and the related proved reserves, was \$1.49 for the Current Quarter and \$0.93 for the Prior Quarter. The Company believes the DD&A rate will continue to increase during the Transition Period based on projected higher finding costs for wells drilled in the Louisiana Trend.

Depreciation and amortization of other assets increased to \$1.1 million in the Current Quarter as compared to \$1.0 million in the Prior Quarter. This increase is primarily the result of higher amortization expense related to debt issuance costs and higher depreciation related to the Company's acquisition of additional buildings and equipment in its Oklahoma City office complex.

General and administrative expenses increased to \$2.8 million during the Current Quarter, a \$1.1 million, or 65%, increase from the Prior Quarter. This increase is the result of the continued growth of the Company. On an Mcfe basis, general and administrative expenses were \$0.14 per Mcfe in the Current Quarter as compared to \$0.09 per Mcfe in the Prior Quarter. The Company capitalized \$1.4 million and \$0.7 million of payroll and other internal costs directly related to oil and gas exploration and development activities, net of partner reimbursements, in the Current Quarter and Prior Quarter, respectively. The Company believes general and administrative expenses will increase substantially as the result of, and upon completion of, the announced acquisitions.

Interest expense increased to \$8.6 million during the Current Quarter, a \$5.8 million increase from the Prior Quarter, as a result of higher levels of interest associated with the issuance of \$300 million of Senior Notes in March 1997. In addition, during the Current Quarter the Company capitalized \$2.6 million of interest costs representing the estimated costs to carry its unevaluated leasehold inventory, compared to \$4.2 million in the Prior Quarter. This decrease in capitalized interest costs is the result of lower investments being carried during the Current Quarter in leasehold that has yet to be evaluated than in the Prior Quarter, as well as a lower capitalization rate during the Current Quarter. The Company expects interest expense to increase based upon the Company's assumption of certain liabilities associated with the announced acquisitions.



The Company recorded no net income tax expense during the Current Quarter as compared to \$4.7 million recorded in the Prior Quarter. At June 30, 1997 the Company recorded a \$64.1 million valuation allowance against its net deferred tax asset. All income taxes recorded during the Current Quarter were offset by a corresponding reduction to the valuation allowance. The Company does not anticipate recording any income tax until such time as the Company can demonstrate that it is more likely than not that it will generate future taxable income sufficient to utilize its existing net operating loss carryforwards.

#### HEDGING ACTIVITIES

The Company periodically utilizes various strategies to hedge the price of a portion of its future oil and gas production. These strategies include (1) swap arrangements that establish an index-related price above which the Company pays the counterparty and below which the Company is paid by the counterparty, (2) collar transactions that establish a defined set price above which the Company pays the counterparty and a separate defined set price below which the counterparty pays the Company, with a NYMEX price between the two resulting in no payment by either party, (3) the purchase of index-related puts that provide for a floor price below which the counterparty pays the Company the amount by which the price of the commodity is below the contracted floor, (4) the sale of index-related calls that provide for a ceiling price above which the Company pays the counterparty the amount by which the price of the commodity is above the contracted ceiling, and (5) basis protection swaps. Results from hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production. The Company has not entered into hedging transactions unrelated to the Company's oil and gas production or physical purchase or sale commitments.

As of September 30, 1997, the Company had the following oil swap arrangements for periods after September 1997:

Month -----	Volume(Bbls) -----	NYMEX-Index Strike Price (per Bbl) -----
October 1997	31,000	\$18.19
November 1997	30,000	\$18.13
December 1997	31,000	\$18.08
January through June 1998	724,000	\$19.82

The Company entered into oil swap arrangements to cancel the effect of the swaps for the months of October through December at an average price of \$20.79 per Bbl.

As of September 30, 1997, the Company had the following gas hedging arrangements for periods after September 1997:

Months -----	Volume (MMBtu) -----	NYMEX Index Strike Price (per MMBtu) -----
October 1997	4,340,000	\$2.421
November 1997	3,000,000	2.560
December 1997	2,480,000	3.036
January 1998	2,480,000	3.039
February 1998	2,240,000	2.835

The Company entered into a gas swap arrangement to cancel the effect of 1,240,000 MMBtu of the October hedged volumes at a price of \$2.157 per MMBtu. The December 1997 through February 1998 transactions represent calls sold by the Company, for which \$1.9 million in advance premium was received.

The Company has also entered into the following collar transactions:

Months -----	Volume (MMBtu) -----	NYMEX- Defined Low Strike Price -----	NYMEX- Defined High Strike Price -----
March 1998	1,240,000	\$ 2.693	\$ 2.33
April 1998	1,200,000	2.483	2.11



These transactions require that the Company pay the counterparty if NYMEX exceeds the defined high strike price and that the counterparty pay the Company if NYMEX is less than the defined low strike price.

The Company has entered into a curve lock for 4.9 Bcf of gas which gives the Company the option to hedge April 1999 through November 1999 gas based upon a negative \$0.285 differential to the December 1998 NYMEX gas price any time between the strike date and December 1998.

Gains or losses on crude oil and natural gas hedging transactions are recognized as price adjustments in the month of related production. The Company estimates that had all of the crude oil and natural gas hedging agreements in effect for production periods beginning October 1, 1997 terminated on September 30, 1997, based on the closing prices for NYMEX futures contracts as of that date, the Company would have paid the counterparty approximately \$2.9 million, which would have represented the "fair value" at that date. These agreements were not terminated.

The Company's oil and gas marketing subsidiary periodically enters into various hedging transactions designed to hedge against physical purchase commitments made by it. Gains or losses on these transactions are recorded as adjustments to Oil and Gas Marketing Sales in the consolidated statements of operations and are not considered by management to be material.

#### CAPITAL RESOURCES AND LIQUIDITY

As of September 30, 1997, the Company had working capital of \$99.8 million. This working capital position does not include the \$74 million in net proceeds received from the Bayard transaction in November 1997. The Company has estimated that its capital expenditures for the Transition Period will be approximately \$175 million, including approximately \$150 million for drilling, completion and production expenditures, and the balance for acreage acquisition, seismic programs and general corporate purposes, but excluding acquisitions. The Company has not yet developed capital expenditure budgets in connection with the announced acquisitions of DLB, AnSon and Hugoton. The capital expenditure budget is largely discretionary, and can be adjusted by the Company based on operating results or other factors. The Company believes it has sufficient capital resources, including expected cash flow from operations and asset sales, to fund its exploration and development program for the foreseeable future.

During November 1997, the Company announced it had entered into agreements to acquire DLB, AnSon and Hugoton through stock-for-stock mergers. While the number of shares to be issued in the DLB and AnSon mergers will be determined by the market price of the Company's common stock for a stated period prior to closing, based on the closing price of the Company's common stock on November 13, 1997 the Company would issue 6.8 million and 4.5 million shares to acquire DLB and AnSon, respectively. The Company will issue approximately 27.2 million shares to acquire Hugoton. As a result of the mergers, the Company's aggregate liabilities will increase by approximately \$190 million. The AnSon transaction is expected to close in November 1997. The DLB and Hugoton transactions are expected to close in the first quarter of 1998. The Company currently maintains no commercial bank credit facility, but anticipates refinancing the DLB and Hugoton debt at closing with a new commercial bank credit facility. The Company is currently negotiating with a lender to arrange this facility.

Also during November 1997, the Company announced its plans to purchase 11.9 million treasury shares from Pan East at a price of \$2.50 (Cdn) per share, or an aggregate purchase price of approximately \$21.1 million (U.S.). The Company will finance this investment using its existing working capital and expects this transaction to close on or before November 30, 1997.

The Company's cash provided by operating activities increased to \$42.6 million during the Current Quarter, compared to \$26.0 million during the Prior Quarter. The increase of \$16.6 million is the result of cash provided by changes in current assets and current liabilities between the two periods.

Net cash used in investing activities increased to \$114.3 million in the Current Quarter, up from \$83.1 million in the Prior Quarter. The \$31.2 million increase is primarily a result of the Company's increased drilling activity and increased investment in gas gathering and processing facilities during the Current Quarter.

Consolidated cash used in financing activities was \$1.2 million during the Current Quarter, as compared to consolidated cash provided by financing activities of \$8.0 million during the Prior Quarter. The change resulted primarily from having no borrowings during the Current Quarter as

well as the payment of \$1.4 million of dividends on the Company's common stock during the Current Quarter.

The Company is subject to certain routine legal proceedings, none of which are expected to have a material adverse effect upon the Company's financial condition or operations. The Company is also involved in certain litigation for which the Company is unable to predict the ultimate financial impact (see Part II, Item 1).

#### FORWARD LOOKING STATEMENTS

All statements other than statements of historical fact contained in this Form 10-Q, including statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. When used herein, the words "budget", "budgeted", "anticipate", "expects", "estimates", "believes", "seeks", "goals", "intends", or "projects" and similar expressions are intended to identify forward-looking statements. It is important to note that the Company's actual results could differ materially from those projected by such forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Factors that could cause the Company's results to differ materially from the results discussed in such forward-looking statements include but are not limited to the following: production variances from expectations, volatility of oil and gas prices, the need to develop and replace its reserves, the substantial capital expenditures required to fund its operations, environmental risks, drilling and operating risks, risks related to exploration and development drilling, uncertainties about estimates of reserves, competition, government regulation, and the ability of the Company to implement its business strategy. All forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

- Not applicable



## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

On October 15, 1996, Union Pacific Resources Company ("UPRC") filed suit against the Company in the U.S. District Court for the Northern District of Texas, Fort Worth Division alleging (a) infringement and inducing infringement of UPRC's claim to a patent (the "UPRC Patent") for an invention involving a method of maintaining a borehole in a stratigraphic zone during drilling, and (b) tortious interference with certain business relations between UPRC and certain of its former employees. UPRC's claims against the Company are based on services provided by a third party vendor to the Company. UPRC is seeking injunctive relief, damages of an unspecified amount, including actual, enhanced, consequential and punitive damages, interest, costs and attorney's fees. The Company believes that it has meritorious defenses to UPRC's allegations and has requested the court to declare the UPRC Patent invalid. The Company has also filed a motion to limit the scope of UPRC's claims and for summary judgment. No prediction can be made as to the outcome of the matter.

As previously disclosed in the Company's Form 10-K for the year ended June 30, 1997, the Company and certain of its officers and directors are defendants in various purported class actions alleging violations of Sections 10b-5 and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

In addition to those previously disclosed, the following additional purported class actions have been filed:

Nathaniel J. Hirsch v. Aubrey K. McClendon, Thomas L. Ward, Marcus C. Rowland, Henry J. Hood, Steven C. Dixon, J. Mark Lester, and Chesapeake Energy Corporation, filed in the U.S. District Court for the Western District of Oklahoma on October 14, 1997.

Kay Chestnut v. Chesapeake Energy Corporation, Aubrey K. McClendon, Thomas L. Ward, Marcus C. Rowland, Shannon T. Self, Walter C. Wilson, Henry J. Hood, Steven C. Dixon and J. Mark Lester, filed in the U.S. District Court for the Western District of Oklahoma on October 16, 1997.

Of the previously disclosed cases, Leslie Joseph Klein IRA v. Chesapeake Energy Corporation et al. has been dismissed, and two others, Albion Financial LLC v. Chesapeake Energy Corporation et al. and Elmo G. Hubble v. Chesapeake Energy Corporation et al., have been transferred to the U.S. District Court for the Western District of Oklahoma. The plaintiffs have filed an unopposed motion to consolidate all the purported class action suits.

The plaintiffs assert that the defendants made materially false and misleading statements and failed to disclose material facts about the success of the Company's exploration efforts, principally in the Louisiana Trend. As a result, the complaints allege, the price of the Company's common stock was artificially inflated during periods beginning as early as January 25, 1996 and ending on June 27, 1997, when the Company issued a press release announcing disappointing drilling results in the Louisiana Trend and a full-

cost ceiling writedown to be reflected in its June 30, 1997 financial statements. The plaintiffs further allege that certain of the named individual defendants sold common stock during the class period when they knew or should have known adverse nonpublic information. Each case seeks a determination that the suit is a proper class action, certification of the plaintiff as a class representative and damages in an unspecified amount, together with costs of litigation, including attorneys' fees. The Company and the individual defendants believe that these actions are without merit, and intend to defend against them vigorously.

## ITEM 2. CHANGES IN SECURITIES

- - Not applicable.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

- - Not applicable

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- - Not applicable

## ITEM 5. OTHER INFORMATION

- - Not applicable

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits

The following exhibits are filed as a part of this report:

Exhibit No.

-----

10.2.4	Employment Agreement dated as of July 1, 1997 between Steven C. Dixon and Chesapeake Energy Corporation.
11	Statement regarding computation of earnings per common share
27	Financial Data Schedule

## (b) Form 8-K

During the quarter ended September 30, 1997, the Company filed the following Current Reports on Form 8-K dated:

July 8, 1997 announcing operations updates,  
August 28, 1997 announcing fiscal 1997 results, and  
September 19, 1997 announcing the declaration of a quarterly cash dividend.

SIGNATURES

Pursuant to the requirements 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  
-----  
(Registrant)

November 14, 1997  
-----  
Date

/s/ AUBREY K. MCCLENDON  
-----  
Aubrey K. McClendon  
Chairman and  
Chief Executive Officer

November 14, 1997  
-----  
Date

/s/ MARCUS C. ROWLAND  
-----  
Marcus C. Rowland  
Senior Vice President and  
Chief Financial Officer

## Index to Exhibits

Exhibit No. -----	Description -----	Page -----
10.2.4	Employment Agreement dated as of July 1, 1997 between Steven C. Dixon and Chesapeake Energy Corporation.	
11	Statement regarding computation of earnings per common share	
27	Financial Data Schedule	

EMPLOYMENT AGREEMENT

between

STEVEN C. DIXON

and

CHESAPEAKE ENERGY CORPORATION

Effective July 1, 1997

## TABLE OF CONTENTS

	Page
	----
1. Employment.....	1
2. Executive's Duties.....	1
2.1 Specific Duties.....	1
2.2 Supervision.....	1
2.3 Rules and Regulations.....	1
2.4 Stock Investment.....	2
3. Other Activities.....	2
4. Executive's Compensation.....	3
4.1 Base Salary.....	3
4.2 Bonus.....	3
4.3 Stock Options.....	3
4.4 Benefits.....	3
4.4.1 Vacation.....	3
4.4.2 Membership Dues.....	3
4.4.3 Compensation Review.....	4
5. Term.....	4
6. Termination.....	4
6.1 Termination by Company.....	4
6.1.1 Termination without Cause.....	4
6.1.2 Termination for Cause.....	4
6.1.3 Termination After Change in Control.....	5
6.2 Termination by Executive.....	5
6.3 Incapacity of Executive.....	6
6.4 Death of Executive.....	6
6.5 Effect of Termination.....	6
7. Confidentiality.....	6
8. Noncompetition.....	7
9. Proprietary Matters.....	8

## TABLE OF CONTENTS (continued)

10. Arbitration.....	8
11. Miscellaneous.....	9
11.1 Time.....	9
11.2 Notices.....	9
11.3 Assignment.....	9
11.4 Construction.....	9
11.5 Entire Agreement.....	10
11.6 Binding Effect.....	10
11.7 Attorney's Fees.....	10
11.8 Supersession.....	10



## EMPLOYMENT AGREEMENT

THIS AGREEMENT is made effective July 1, 1997, between CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), and STEVEN C. DIXON, an individual (the "Executive") and replaces and supersedes that certain Employment Agreement between Company and Executive dated July 1, 1995.

## W I T N E S S E T H:

WHEREAS, the Company desires to retain the services of the Executive and the Executive desires to make the Executive's services available to the Company.

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Company and the Executive agree as follows:

1. Employment. 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 employee 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. Executive's Duties. 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.

2.1 Specific Duties. The Executive will serve as Senior Vice President - Operations for the Company. The Executive will perform all of the services required to fully and faithfully execute the office and position to which the Executive is appointed and such other services 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 the Company's subsidiaries as determined in the board of directors' sole discretion.

2.2 Supervision. The services of the Executive will be requested and directed by the President and Chief Operating Officer, Mr. Tom L. Ward, and the Chief Executive Officer, Mr. Aubrey K. McClendon.

2.3 Rules and Regulations. The Company currently has an Employment Policies Manual which 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.

2.4 Stock Investment. For each calendar year during which this Agreement is in effect, the Executive agrees to hold shares of the Company's common stock having aggregate Investment Value equal to fifteen percent (15%) of the compensation paid to the Executive under paragraphs 4.1 and 4.2 of this Agreement during such calendar year. For purposes of this section, the "Investment Value" of each share of stock will be the higher of either (a) the price paid by the Executive for such share as part of an open market purchase; or (b) the fair market value on the date of exercise for shares acquired through the exercise of employee stock options. Any shares of common stock acquired by the Executive prior to the date of this Agreement and still owned by the Executive during the term of this Agreement may be used to satisfy this requirement to acquire common stock. The Investment Value for previously acquired stock shall be calculated using the average stock price during the first six months of this Agreement.

The stock acquired or owned pursuant to this paragraph 2.4 must be held by the Executive at all times during the Executive's employment by the Company or the Company's affiliated entities. In order to administer this provision, the Executive agrees to return to the Company's Chief Executive Officer a semi-annual report of purchases and ownership in a form prepared by the Company. This paragraph will become null and void if the Company's common stock ceases to be listed on the New York Stock Exchange or on the National Association of Securities Dealers Automated Quotation System. The Company has no obligation to sell or to purchase from the Executive any of the Company's stock in connection with this paragraph 2.4 and has made no representations or warranties regarding the Company's stock, operations or financial condition.

3. Other Activities. Unless the Executive has obtained the prior written approval of the board of directors of the Company, the Executive will not: (a) engage in business independent of the Executive's employment by the Company; (b) serve as an officer, general partner or member in any corporation, partnership, company, or firm; (c) directly or indirectly invest in, participate in or acquire an interest in any oil and gas business, including, without limitation, (i) producing oil and gas, (ii) drilling, owning or operating oil and gas leases or wells, (iii) providing services or materials to the oil and gas industry, (iv) marketing or refining oil or gas, or (v) owning any interest in any corporation, partnership, company or entity which conducts any of the foregoing activities. The limitation in this paragraph 3 will not prohibit an investment by the Executive in publicly traded securities; or the continued direct ownership and operation of oil and gas interests and leases to the extent such interests were owned by the Executive on July 1, 1995. The Executive agrees not to directly

or indirectly acquire any additional oil and gas interests or increase ownership of any oil and gas interests owned by the Executive on July 1, 1995.

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 One Hundred Seventy Five Thousand Dollars (\$175,000.00), will be paid to the Executive in equal semi-monthly installments beginning July 15, 1997 during the term of this Agreement.
- 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 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 Stock Options. In addition to the compensation set forth in paragraphs 4.1 and 4.2 of this Agreement, the Executive may periodically receive grants of stock options from the Company's various stock option 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 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 provide such coverage on the same terms as is customarily provided by the Company to the plan participants as modified from time to time. 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 three (3) weeks of paid vacation each twelve months 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 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 country club in the Oklahoma City area selected by the Executive in an amount not to exceed Five Hundred Dollars (\$500.00) per

month; and (b) the reasonable cost of any qualified business entertainment at such country 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.

4.4.3 Compensation Review. The compensation of the Executive will be reviewed not less frequently than annually by the board of directors of the Company.

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. In the absence of such termination, this Agreement will extend for a term of three (3) years commencing on July 1, 1997, and ending on June 30, 2000 (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 sixty (60) business days after the date of such notice (the "Termination Date"). In the event the Executive is terminated without cause, or the Company elects not to renew the contract, the Executive will receive as termination compensation: (a) Base Salary for a period of ninety (90) days; (b) any benefits payable by operation of paragraph 4.4 of this Agreement; and (c) any vacation pay accrued through the Termination Date. The termination compensation in (a) shall be paid only if the Executive executes the Company's standard Termination Agreement, a copy of which is attached as Exhibit "A".

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 dishonesty; (b) engages in personal misconduct which materially injures the Company; (c) willfully violates any law or regulation relating to the business of the Company which results in injury to the Company; or (d) willfully and repeatedly 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 effective date of such termination.

6.1.3 Termination After Change in Control. If, during the term of this Agreement, there is a "Change of Control" and within one (1) year thereafter: (a) this Agreement expires and is not extended; or (b) the Executive is terminated other than under paragraphs 6.1.2, 6.3 or 6.4 based on adequate grounds; or (c) the Executive resigns as a result of a reassignment of duties inconsistent with the Executive's position, a reduction in the Executive's then current compensation under paragraph 4 of this Agreement, or a required relocation more than 25 miles from the Executive's then current place of employment, then the Executive will be entitled to a severance payment (in addition to any other amounts payable to the Executive under this Agreement or otherwise) in an amount equal to twelve (12) months of Base Salary as set forth in paragraph 4.1 of this Agreement. The term "Change of Control" means any action of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A under the Securities Exchange Act of 1934 with respect to the Company including, without limitation (i) the direct or indirect acquisition by any person after the date hereof of beneficial ownership of the right to vote or securities of the Company representing the right to vote thirty five percent (35%) or more of the combined voting power of the Company's then outstanding securities having the right to vote for the election of directors, or (ii) within two years of a tender offer or exchange offer for the voting stock of the Company or as a result of a merger, consolidation, sale of assets or contested election (or any combination of the foregoing), a majority of the members of the Company's board of directors is replaced by directors who were not nominated and approved by the board of directors.

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 an effective date of such termination thirty (30) days after the date of such notice, during which time Executive may use remaining accrued vacation days, or at the Company's option, be paid for such days. 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 effective date of such termination.

- 6.3 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 shall be deemed as a termination with cause, any compensation payable under paragraph 4 of this Agreement will be continued for ninety (90) days. 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.
- 6.4 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 ninety (90) days; and (b) the benefits described in paragraph 4.4 of this Agreement accrued through the effective date of such termination.
- 6.5 Effect of Termination. The termination of this Agreement will terminate all obligations of the Executive to render services on behalf of the Company, provided that the Executive will maintain the confidentiality of all information acquired by the Executive during the term of his employment in accordance with paragraph 7 of this Agreement. 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 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. All such personal items will be removed from such offices no later than two (2) days after the effective date of termination, 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 effective date of termination, 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.

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 or is the foundation on which the business of the Company is predicated. The Executive agrees not to disclose to any person other than the Company's employees 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; (b) provided, disclosed or delivered to Executive by the Company, any officer, director, employee, 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, employees, borrowers or customers of the foregoing. However, Confidential Information shall not include any information, data or material which at the time of disclosure or use was generally available to the public other than by a breach of this Agreement, was available to the party to whom disclosed on a non-confidential basis by disclosure or access provided by the Company or a third party, or was otherwise developed or obtained independently by the person to whom disclosed without a breach of this Agreement. On request by the Company, the Company will be entitled to a copy 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 five (5) 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, and 9 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 Executive is no longer employed by the Company as a result of either the resignation by the Executive pursuant to paragraph 6.2 above, or Termination for Cause pursuant to paragraph 6.1.2 above, Executive will not: (a) 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 five (5) miles of any operations or ownership interests of the Company or its affiliated corporations, partnerships or entities, provided, however, this provision shall not apply to acquisitions within said five (5) mile radius of assets or activities of a successor entity resulting from a "Change in Control" as described in paragraph 6.1.3., which assets were owned or activities were being conducted (1) prior to the date of such Change in Control, or (2) after such Change in Control but for which the Executive had no material responsibility; and; (b) for the Executive's own account or for the benefit of another party solicit, induce, entice or attempt to entice any employee, contractor, customer, vendor or subcontractor to terminate or breach any relationship with the Company or the Company's affiliates. The Executive further agrees that the Executive will not circumvent or attempt to circumvent the foregoing agreements by any future arrangement or through the actions of a third party.

9. Proprietary Matters. The Executive expressly understands and agrees that any and all improvements, inventions, discoveries, processes or know-how 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.

10. Arbitration. The parties will attempt to promptly resolve any dispute or controversy arising out of or relating to this Agreement or termination of the Executive by the Company. Any negotiations pursuant to this paragraph 10 are confidential and will be treated as compromise and settlement negotiations for all purposes. If the parties are unable to reach a settlement amicably, the dispute will be submitted to binding arbitration before a single arbitrator in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association. The arbitrator will be instructed and empowered to take reasonable steps to expedite the arbitration and the arbitrator's judgment will be final and binding upon the parties subject solely to challenge on the grounds of fraud or gross misconduct. Except for damages arising out of a breach of paragraphs 7, 8 or 9 of this Agreement, the arbitrator is not empowered to award total damages (including compensatory damages) which exceed 300% of compensatory damages and each party hereby irrevocably waives any damages in excess of that amount. The arbitration will be held in Oklahoma County, Oklahoma. Judgment upon any verdict in arbitration may be entered in any court of competent jurisdiction and the parties hereby consent to the jurisdiction of, and proper venue in, the federal and state courts located in Oklahoma County, Oklahoma. Each party will bear its own costs in connection with the arbitration and the costs of the arbitrator will be borne by the party who the arbitrator determines did not prevail in the matter. Unless otherwise



expressly set forth in this Agreement, the procedures specified in this paragraph 10 will be the sole and exclusive procedures for the resolution of disputes and controversies between the parties arising out of or relating to this Agreement. Notwithstanding the foregoing, a party may seek a preliminary injunction or other provisional judicial relief if in such party's judgment such action is necessary to avoid irreparable damage or to preserve the status quo.

11. Miscellaneous. The parties further agree as follows:

11.1 Time. Time is of the essence of each provision of this Agreement.

11.2 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:                Mr. Steven C. Dixon  
  2505 Rambling Rd.  
  Edmond, OK 73034

11.3 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.

11.4 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. This Agreement is intended to be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma and any litigation relating to this Agreement will be conducted in a court of competent jurisdiction sitting in Oklahoma County, Oklahoma.

11.5 Entire Agreement. This Agreement constitutes 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.

11.6 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.

11.7 Attorneys' Fees. If any party institutes an action or proceeding against any other party relating to the provisions of this Agreement or any default hereunder, the unsuccessful party to such action or proceeding will reimburse the successful party therein for the reasonable expenses of attorneys' fees and disbursements and litigation expenses incurred by the successful party.

11.8 Supercession. 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 and the Employment Policies Manual and not by any other agreements or otherwise. In the event of a conflict between the Employment Policies Manual and this Agreement, this Agreement will control in all respects.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective the date first above written.

CHESAPEAKE ENERGY CORPORATION, an  
Oklahoma corporation

By: /s/ AUBREY K. MCCLENDON  
-----  
Aubrey K. McClendon, Chief Executive  
Officer (the "Company")

By: /s/ STEVEN C. DIXON  
-----  
Steven C. Dixon, Individually  
(the "Executive")

## Exhibit "A"

TERMINATION AGREEMENT  
AND WAIVER AND RELEASE OF CLAIMS

This Termination Agreement entered into this \_\_\_ day of \_\_\_\_\_, \_\_\_\_, by and between Steven C. Dixon ("Executive") and Chesapeake Energy Corporation ("Chesapeake").

WHEREAS, Executive has been employed by Chesapeake in Oklahoma City during the period from January 28, 1991 to \_\_\_\_\_, \_\_\_\_\_.

WHEREAS, on \_\_\_\_\_, \_\_\_\_, Executive's employment with Chesapeake was terminated; and

WHEREAS, the Executive and Chesapeake desire to enter into a mutually binding termination agreement to settle any and all issues or disputes arising from Executive's employment with Chesapeake.

NOW, THEREFORE, for and in consideration of ninety (90) days of severance pay, \$\_\_\_\_\_ at Executive's current salary, the payment and receipt of which is being acknowledged, Executive waives, discharges and releases any and all claims against Chesapeake arising from or relating to Executive's employment with Chesapeake or Executive's termination including but not limited to claims for wrongful discharge, discrimination (including rights and claims under the Age Discrimination in Employment Act of 1967, as amended by the Older Workers Benefit Protection Act), breach of contract, harassment, back wages and future pay.

Executive represents and warrants that as of this date, Executive has suffered no work-related injury during Executive's employment with Chesapeake and has no intention of filing a claim for worker's compensation benefits arising from any incident occurring during Executive's employment with the Chesapeake.

Executive acknowledges and declares that as of this date, Executive has accounted to Chesapeake for any and all hours worked through \_\_\_\_\_, \_\_\_\_, including overtime, and that Chesapeake has paid Executive for such hours worked at the appropriate rate.

Executive acknowledges and declares that as of date of termination Executive is due no accrued but unpaid vacation pay nor any accrued yet unpaid sick pay.

Nothing in this Termination Agreement shall constitute a waiver or release of any rights or claims which may arise after the date hereto.

Executive acknowledges and states that Chesapeake has advised him that he has the right to consult with an attorney prior to the execution of this agreement and that Executive is given twenty-one (21) days in which to consider this agreement before signing it and seven (7) days after signing the agreement to revoke it by returning the above stated severance pay.

Executive acknowledges that the waiver of claims made herein is in exchange for consideration in addition to that which Executive would otherwise be entitled to upon severance of employment.

Executive states that he has carefully read the contents of this Termination Agreement and understands all terms and conditions thereof.

Executive states that he executed this Termination Agreement freely and voluntarily and without coercion or undue influence of any kind.

If any term or provision of this Termination Agreement is unenforceable for any reason, all other provisions shall nonetheless be enforceable and binding on the parties.

Executive agrees that this Termination Agreement, the terms hereof and payment hereunder shall be kept confidential and that such terms and payment shall not be disclosed to anyone (except Executive's spouse and attorney), including, but not limited to, any past, present or prospective employee or applicant for employment with Chesapeake.

Signed this \_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

WITNESSED:

- - - - -  
Steven C. Dixon

Chesapeake Energy Corporation

By: \_\_\_\_\_  
Martha A. Burger

## CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

STATEMENT OF NET INCOME PER SHARE  
(\$ in thousands, except per share)  
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,	
	1997	1996
PRIMARY INCOME PER SHARE		
Computation for statement of operations		
Net income per statement of operations	\$ 5,513 =====	\$ 8,204 =====
Common shares outstanding	70,376	60,252
Adjustment to weighted average common shares outstanding:		
Add dilutive effect of:		
Employee Options	2,323 -----	4,006 -----
Weighted average common shares and common equivalent shares outstanding, as adjusted	72,699 =====	64,258 =====
Net income per common share, as adjusted	\$ .08 =====	\$ .13 =====
FULLY DILUTED INCOME PER SHARE		
Net income applicable to common stock as shown in primary computation above	\$ 5,513 =====	\$ 8,204 =====
Common shares outstanding	70,376	60,252
Adjustment to weighted average common shares outstanding:		
Add fully dilutive effect of:		
Employee Options	2,867 -----	4,086 -----
Weighted average common shares and common equivalent shares outstanding, as adjusted	73,243 =====	64,338 =====
Fully diluted net income per common share	\$ .08 =====	\$ .13 =====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEET AS OF SEPTEMBER 30, 1997, AND STATEMENT OF INCOME FOR THREE MONTHS ENDED SEPTEMBER 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH.

1,000

3-MOS	
	JUN-30-1998
	JUL-01-1997
	SEP-30-1997
	55,782
	85,478
	77,293
	346
	4,625
	223,773
	1,155,587
	466,288
	931,669
123,949	508,971
0	0
	704
	290,504
931,669	72,532
	78,410
	64,322
	72,897
	0
	25
	8,575
	5,513
	0
5,513	0
	0
	0
	0
	5,513
	.08
	.08