

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

CHESAPEAKE ENERGY CORP
Form 11-K
June 28, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

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

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
(FEE REQUIRED)

For the fiscal year ended December 31, 2003

Or

[] TRANSITION REPORT PURSUANT TO SECTION 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934
(No Fee Required)

For the transition period from _____ to _____

Commission File No. 1-13726

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

CHESAPEAKE ENERGY CORPORATION SAVINGS AND INCENTIVE
STOCK BONUS PLAN
6100 NORTH WESTERN AVENUE
OKLAHOMA CITY, OK 73118

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

CHESAPEAKE ENERGY CORPORATION
6100 NORTH WESTERN AVENUE
OKLAHOMA CITY, OK 73118

CHESAPEAKE ENERGY CORPORATION
SAVINGS AND INCENTIVE STOCK BONUS PLAN
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
December 31, 2003 and 2002

CHESAPEAKE ENERGY CORPORATION
SAVINGS AND INCENTIVE STOCK BONUS PLAN
Contents
December 31, 2003 and 2002

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

PAGE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.....1

FINANCIAL STATEMENTS

Statements of Net Assets Available for Benefits.....2

Statements of Changes in Net Assets Available for Benefits.....3

Notes to Financial Statements.....4

SUPPLEMENTAL SCHEDULES

Schedule of Assets (Held at End of Year).....10

Schedule of Reportable Transactions.....11

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and the Members of the Employee Compensation and Benefits Committee of the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan

In our opinion the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan (the "Plan") at December 31, 2003 and 2002, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

PricewaterhouseCoopers LLP

June 25, 2004
Oklahoma City, Oklahoma

1

CHESAPEAKE ENERGY CORPORATION
SAVINGS AND INCENTIVE STOCK BONUS PLAN
Statements of Net Assets Available for Benefits
December 31, 2003 and 2002

	2003	2002
Assets		
Investments	\$ 53,858,347	\$ 28,010,785
Receivables		
Employer contributions	54,230	84,673
Participants' contributions	131,785	85,053
Dividends	98,622	72,339
	-----	-----
Total assets	54,142,984	28,252,850
	-----	-----
Liabilities		
Accrued liabilities	18,780	28,794
	-----	-----
Net assets available for benefits	\$ 54,124,204	\$ 28,224,056
	=====	=====

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

2

CHESAPEAKE ENERGY CORPORATION
 SAVINGS AND INCENTIVE STOCK BONUS PLAN
 Statements of Changes in Net Assets Available for Benefits
 Years Ended December 31, 2003 and 2002

	2003	2002

ADDITIONS TO NET ASSETS ATTRIBUTED TO		
Investment income		
Interest and dividends	\$ 588,381	\$ 293,691
Net appreciation in fair value of investments	18,439,319	1,572,008
	-----	-----
Total investment income	19,027,700	1,865,699
	-----	-----
Contributions		
Employer	3,929,615	2,876,857
Participants	4,446,710	3,507,850
	-----	-----
Total contributions	8,376,325	6,384,707
	-----	-----
Total additions	27,404,025	8,250,406
	-----	-----
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
Benefits paid to participants	1,444,781	693,203
Administrative expenses	59,096	54,235
	-----	-----
Total deductions	1,503,877	747,438
	-----	-----
Net increase	25,900,148	7,502,968
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	28,224,056	20,721,088
	-----	-----
	\$ 54,124,204	\$ 28,224,056
	=====	=====

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

3

CHESAPEAKE ENERGY CORPORATION
SAVINGS AND INCENTIVE STOCK BONUS PLAN
Notes to Financial Statements
December 31, 2003 and 2002

1. DESCRIPTION OF THE PLAN

The following is a brief summary of the various provisions of the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan (the "Plan"). Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

GENERAL

The Plan is a defined contribution plan that covers all employees of Chesapeake Energy Corporation and its subsidiaries (the "Company"), except for the employees of NOMAC Drilling Corporation, a wholly-owned subsidiary.

CONTRIBUTIONS

Each year, participants may contribute up to 15 percent of pre-tax annual compensation, as defined by the Plan. Participants may also contribute amounts representing rollover distributions from other qualified plans. The Company makes matching contributions of 100 percent of the first 15 percent of participant contributions. Profit sharing contributions may be made at the discretion of the Company's board of directors. No discretionary profit sharing contributions were made in 2003 and 2002. Contributions are subject to certain limitations.

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

The Company's matching contribution is used to purchase shares of Chesapeake Energy Corporation Common Stock (the "Common Stock") on the open market. Participants may also elect to direct all or a portion of their contributions into the Common Stock. Participants may not transfer or liquidate their investment in Common Stock arising from employer contributions and earnings thereon until they elect to withdraw from the Plan due to separation of service or elect an in-service distribution upon attainment of age 59 1/2.

PARTICIPANT ACCOUNTS

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

VESTING

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company's matching and profit sharing contributions plus actual earnings thereon is based on years of credited service or participant's age. Prior to July 1, 2003, participants received benefits based on a vesting schedule that provided for 100 percent vesting upon completion of six years of credited service. Effective July 1, 2003, a participant will be 100 percent vested after five years of credited service.

4

CHESAPEAKE ENERGY CORPORATION
SAVINGS AND INCENTIVE STOCK BONUS PLAN
Notes to Financial Statements
December 31, 2003 and 2002

PARTICIPANT NOTES RECEIVABLE

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. Loan terms range from one to five years or up to ten years for the purchase of a primary residence. The loans are collateralized by the balance in the participant's account and bear interest at the Prime Interest Rate. Principal and interest is paid ratably through semi-monthly payroll deductions. Interest rates on loans outstanding at December 31, 2003 ranged from 4.00 percent to 9.50 percent.

PAYMENT OF BENEFITS

Upon termination of service due to death, retirement or separation from service, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, annual installments, or have the value rolled over to another qualified plan or IRA. Those participants who were Plan participants as of December 31, 1999 may elect to receive benefits in the form of annuity payments.

AMOUNTS FORFEITED

Forfeited nonvested amounts are first used to pay administrative expenses of the Plan or to restore unvested amounts to re-employed participants. Any remaining forfeitures are used to reduce Company contributions into the Plan. Forfeited nonvested accounts totaled

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

\$100,489 and \$155,929 at December 31, 2003 and 2002, respectively. During 2003 forfeited nonvested accounts of \$63,008 were used to pay administrative expenses of the plan and \$75,000 to reduce employer matching contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

INVESTMENT VALUATION AND INCOME RECOGNITION

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

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

5

CHESAPEAKE ENERGY CORPORATION
SAVINGS AND INCENTIVE STOCK BONUS PLAN
Notes to Financial Statements
December 31, 2003 and 2002

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

PAYMENT OF BENEFITS

Benefits are recorded when paid.

RISKS AND UNCERTAINTIES

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

RECLASSIFICATIONS

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

Certain reclassification adjustments have been made in the December 31, 2002 statement of net assets available for benefits to conform to the current year presentation.

3. INVESTMENTS

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

	2003	2002
Chesapeake Energy Corporation Common Stock	\$ 38,265,445 *	\$ 18,663,410 *
Fidelity Retirement Money Market Fund	1,961,837 **	2,008,864

* Balances include nonparticipant-directed investments.

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

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

	2003	2002
Mutual funds	\$ 2,600,468	\$ (1,238,182)
Common stocks	15,838,851	2,810,190
	-----	-----
	\$ 18,439,319	\$ 1,572,008
	=====	=====

6

CHESAPEAKE ENERGY CORPORATION
 SAVINGS AND INCENTIVE STOCK BONUS PLAN
 Notes to Financial Statements
 December 31, 2003 and 2002

4. NONPARTICIPANT-DIRECTED INVESTMENTS

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

	2003	2002
NET ASSETS		

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

Chesapeake Energy Corporation common stock	\$ 38,265,445	\$ 18,663,410
	-----	-----
CHANGES IN NET ASSETS		
Contributions	\$ 4,605,462	\$ 3,350,369
Dividend income	339,572	36,850
Net appreciation	15,838,851	2,810,190
Benefits paid to participants	(980,729)	(372,741)
Transfers to other investment options, net	(201,121)	(227,859)
	-----	-----
	\$ 19,602,035	\$ 5,596,809
	=====	=====

5. PARTY-IN-INTEREST TRANSACTIONS

Certain Plan investments are shares of Chesapeake Energy Corporation common stock. These transactions represent investments in the Company, and, therefore, qualify as party-in-interest transactions. Further, certain Plan investments are shares of mutual funds managed by Fidelity Investments. Fidelity Management Trust Company is the trustee as defined by the Plan, and, therefore, transactions in mutual funds managed by Fidelity Investments qualify as party-in-interest transactions.

6. TAX STATUS

The Plan obtained its latest determination letter on April 22, 1997, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (the "IRC"). The Plan has been amended since receiving the determination letter. However, the plan administrator and the plan's tax counsel believe the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the plan's financial statements.

7

CHESAPEAKE ENERGY CORPORATION
SAVINGS AND INCENTIVE STOCK BONUS PLAN
Notes to Financial Statements
December 31, 2003 and 2002

7. PLAN TERMINATION

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

8. CONCENTRATION OF INVESTMENTS

As of December 31, 2003 net assets available for benefits in the amount

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

of \$38,265,445 and \$14,316,827 were invested in Chesapeake Energy Common Stock and mutual funds managed by Fidelity Investments, respectively.

9. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits as of December 31, 2003 and 2002, as reflected in the accompanying financial statements, to the Form 5500:

	2003
Net assets available for benefits per the financial statements	\$ 54,124,204
Add: Accrued administrative expenses	18,780
Less: Accrued dividend income	-

Net assets available for benefits per the Form 5500	\$ 54,142,984
	=====

The following is a reconciliation of administrative expenses for the years ended December 31, 2003 and 2002, as reflected in the accompanying financial statements, to the Form 5500:

	2003
Administrative expenses per the financial statements	\$ 59,096
Add: Previous year accrued administrative expenses	28,794
Less: Current year accrued administrative expenses	(18,780)

Administrative expenses per the Form 5500	\$ 69,110
	=====

Administrative expenses are recorded on the Form 5500 when paid.

8

The following is a reconciliation of interest and dividend income for the year ended December 31, 2003 and 2002, as reflected on the accompanying financial statements, to the form 5500:

	2003
Interest and dividends per the financial statements	\$ 588,381
Add: Previous year accrued interest and dividend income	72,339
Less: Current year accrued interest and dividend income	-

Interest and dividends per the Form 5500	\$ 660,720
	=====

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

Prior to January 1, 2003 dividend income was recorded on the Form 5500 when paid. Effective January 1, 2003 dividend income was recorded on the Form 5500 on the accrual basis of accounting.

9

CHESAPEAKE ENERGY CORPORATION
SAVINGS AND INCENTIVE STOCK BONUS PLAN
Schedule of Assets (Held at End of Year)
December 31, 2003

Schedule 1

IDENTITY OF ISSUE, BORROWER, LESSOR, OR SIMILAR PARTY	DESCRIPTION OF INVESTMENT INCLUDING MATURITY DATE RATE OF INTEREST, COLLATERAL, PAR, OR MATURITY VALUE	COST
* Chesapeake Energy Corporation	Common Stock	\$14,147,749
* Fidelity Equity Inc.	Mutual Funds	**
* Fidelity Growth Co.	Mutual Funds	**
* Fidelity Inter Bond	Mutual Funds	**
* Fidelity OTC Portfolio	Mutual Funds	**
* Fidelity Low Priced Stock Fund	Mutual Funds	**
* Fidelity Aggressive Growth	Mutual Funds	**
* Fidelity Diversified International Fund	Mutual Funds	**
* Fidelity Freedom Income	Mutual Funds	**
* Fidelity Freedom 2000	Mutual Funds	**
* Fidelity Freedom 2010	Mutual Funds	**
* Fidelity Freedom 2020	Mutual Funds	**
* Fidelity Freedom 2030	Mutual Funds	**
* Fidelity Freedom 2040	Mutual Funds	**
* Fidelity Retirement Money Market	Mutual Funds	**
* Spartan US Equity Index	Mutual Funds	**
* Brokeragelink participant-directed brokerage accounts	Common Stocks & Mutual Funds	**
Alger Small Cap Institutional	Mutual Funds	**
Templeton Foreign A	Mutual Funds	**
Lord Abbett Mid Cap Value	Mutual Funds	**
* Participant Loans	Interest Rates Ranging From 4.00 percent to 9.50 percent	**

* Identifies parties-in-interest

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

10

CHESAPEAKE ENERGY CORPORATION

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 11-K

SAVINGS AND INCENTIVE STOCK BONUS PLAN
 Schedule of Reportable Transactions
 Year Ended December 31, 2003

SCHEDULE 2

DESCRIPTION OF ASSET	NUMBER OF PURCHASES	NUMBER OF SALES	TOTAL PURCHASE PRICE	TOTAL SELLING PRICE
*Chesapeake Energy Corporation Stock Purchases	33 --	- -	\$ 4,303,570 =====	\$ - =====

* Identifies parties-in-interest

11

SIGNATURES

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

CHESAPEAKE ENERGY CORPORATION
 Savings and Incentive Stock Bonus Plan

By: /s/ MARY WHITSON

 Mary Whitson, Plan Administrator

Date: June 28, 2004

12

EXHIBIT INDEX

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

13