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CHESAPEAKE ENERGY CORP
Form 8-K/A
October 26, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED) OCTOBER 26, 2001
(OCTOBER 24, 2001)

CHESAPEAKE ENERGY CORPORATION

(Exact name of Registrant as specified in its Charter)

OKLAHOMA

1-13726

73-13

(State or other jurisdiction
of incorporation)

(Commission File No.)

(IRS Employer Id

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)

INFORMATION TO BE INCLUDED IN THE REPORT

ITEM 5. OTHER EVENTS

This Form 8-K/A amends the Form 8-K dated October 24, 2001 and filed on October 25, 2001 by Chesapeake Energy Corporation ("Chesapeake") that included (i) Chesapeake's third quarter earnings for 2001 under Item 5 and (ii) a press release ("Press Release") filed as Exhibit 99, describing Chesapeake's third quarter earnings for 2001. The Press Release is not being amended. This

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Form 8-K/A is being filed, however, to include in Item 9 certain forecasts made by Chesapeake in the Press Release, in compliance with the requirements of Regulation FD of the Securities Exchange Act of 1934. The following was included in the Press Release:

CHESAPEAKE ENERGY CORPORATION REPORTS EARNINGS OF \$0.38
PER FULLY DILUTED SHARE FOR THE 2001 THIRD QUARTER

COMPANY POSTS THIRD QUARTER NET INCOME OF \$65 MILLION,
CASH FLOW OF \$125 MILLION AND EBITDA OF \$149 MILLION ON
REVENUE OF \$239 MILLION AND PRODUCTION OF 41 BCFE

PRODUCTION INCREASES 21% OVER 2000 THIRD QUARTER AND
4% OVER 2001 SECOND QUARTER

HEDGING POSITIONS CURRENTLY VALUED AT MORE THAN \$225 MILLION -
CLOSED POSITIONS EXCEED \$105 MILLION AND
OPEN POSITIONS EXCEED \$120 MILLION

Chesapeake reported its financial and operating results for the third quarter of 2001. For the quarter, Chesapeake generated net income of \$65.0 million (\$0.38 per fully diluted share), operating cash flow of \$125.1 million (\$0.73 per fully diluted share), and ebitda (operating cash flow plus interest expense) of \$149.2 million on revenue of \$238.9 million. These results reflect increases over the same period in 2000 of 19% in net income, 50% in operating cash flow, 42% in ebitda and 42% in revenue. The company's net income of \$65.0 million included a \$19.4 million (\$0.11 per fully diluted share) after-tax non-cash gain resulting from the application of SFAS 133 to certain of the company's commodity hedging contracts.

Production for the third quarter of 2001 was 40.8 billion cubic feet of natural gas equivalent (bcfe), comprised of 36.6 billion cubic feet of natural gas (bcf) and 705 thousand barrels of oil (mbo). The company's production increased 21% from the third quarter of 2000 and 4% from the second quarter of 2001. Average prices realized during the third quarter of 2001 were \$27.37 per barrel of oil and \$4.34 per thousand cubic feet (mcf) of natural gas, for a gas equivalent price of \$4.36 per mcfe. Hedging activities during the third quarter increased oil revenue by \$2.01 per barrel and increased gas revenue by \$1.72 per mcf, for a total revenue increase from hedging of \$64.4 million (\$1.58 per mcfe).

The table below summarizes Chesapeake's key statistics during the quarter and compares them to the second quarter of 2001 and the third quarter of 2000:

	Three Months Ended	
	9/30/01	6/30/01
Average daily production (in mmcfe)	443	430
Natural gas as a % of total production	90	90
Natural gas production (in bcf)	36.6	35.0
Average natural gas sales price (\$/mcf)	4.34	4.46
Oil production (in mbbls)	705	682
Average oil sales price (\$/bbl)	27.37	27.70
Natural gas equivalent production (in bcfe)	40.8	39.1
Natural gas equivalent sales price (\$/mcfe)	4.36	4.48
General and administrative costs (\$/mcfe)	.08	.07
Production taxes (\$/mcfe)	.17	.26
Lease operating expenses (\$/mcfe)	.47	.48

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Interest expense (\$/mcf)	.59	.59
DD&A of oil and gas properties (\$/mcf)	1.15	1.02
Operating cash flow (\$ in millions)	125.1	122.3
Operating cash flow (\$/mcf)	3.07	3.13
Ebitda (\$ in millions)	149.2	145.3
Ebitda (\$/mcf)	3.66	3.71
Net income (\$ in millions)	65.0	39.5

HEDGING POSITIONS CURRENTLY VALUED AT MORE THAN \$225 MILLION -
CLOSED POSITIONS EXCEED \$105 MILLION AND
OPEN POSITIONS EXCEED \$120 MILLION

For the nine months ended September 30, 2001, Chesapeake's hedging program has enhanced the company's oil and gas revenue by \$41 million. Based upon futures prices as of October 23, the market value of Chesapeake's remaining 2001-03 hedges was \$187 million. Of this amount, the company has already locked in \$64 million through its October 2001 settlements and by lifting certain hedges early for future months of production. As discussed in Chesapeake's second quarter earnings release conference call on July 27, 2001, the company stated that it would begin to lift its hedges once it determined the risk of further near-term downside gas pricing pressure had largely abated. Management believes that a bottom in gas prices has likely occurred and anticipates stronger gas prices in 2002 and further strengthening in 2003 as the economy improves and producers remain unable to increase gas supplies by more than 1-2% annually. Accordingly, during the past few weeks Chesapeake has covered approximately 60% of its straight swap gas positions previously in place for 2002 and 2003.

Chesapeake has not covered any of its open straight swap gas positions for November or December of 2001 nor has it covered any of its capped swap or collared gas positions for 2002 and 2003. The capped swap gas positions are currently appreciating in value as gas futures prices for 2002 and 2003 have recently increased. The company will continue to monitor its capped swap and collared gas positions for favorable opportunities to maximize their value. The company's remaining open gas positions cover approximately 76% and 47% of expected gas production in 2002 and 2003 at prices of approximately \$4.59 per mcf and \$3.65 per mcf, respectively. In addition, the company has already locked in gains of \$20 million and \$16 million on its closed positions for 2002 and 2003.

Chesapeake's well-timed and well-executed risk management program has enabled it to lock in unusually high forward gas prices that have positioned the company to deliver more than \$1.2 billion of cash flow and \$350 million of net income during the three-year period of 2001-03. Management believes the combination of Chesapeake's successful hedging program, the company's commitment to maximizing high returns on its capital and the strength of its debt service coverage should enable investors to more easily differentiate the company from other E&P companies.

Consistent with Chesapeake's commitment to high rates of return, the company became very concerned during the second and third quarters that the industry's finding costs and operating margins had been adversely impacted by much higher service costs. As a consequence, the company reduced its rig count by one-third during the third quarter to its present rate of 15-17 rigs. Other E&P companies have now started to make their own cap-ex reductions and consequently service costs have fallen and Chesapeake expects such costs to continue trending downward during the next few quarters. During this period of lower service costs, Chesapeake anticipates that it may increase its drilling activity.

SALE OF CANADIAN SUBSIDIARY COMPLETED

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On October 1, Chesapeake completed the sale of its Canadian subsidiary with its 175 bcfe of proved reserves (77% proved developed producing) for \$143 million. The company used the proceeds to substantially reduce its bank debt. A gain of approximately \$30 million from the sale will be reported in the fourth quarter of 2001. The company intends to re-deploy the sales proceeds into its core Mid-Continent operating area, where it receives much better gas prices, possesses greater operating efficiencies and generates significantly higher rates of return.

MANAGEMENT SUMMARY

Aubrey K. McClendon, Chesapeake's Chairman and Chief Executive Officer, commented, "We are very pleased with our strong performance during the third quarter of 2001. Production was up 21% from last year and 4% sequentially from this year's second quarter. In addition, we believe our hedging program is the best in the industry and virtually ensures our company will generate more than \$1.2 billion of cash flow and \$350 million of net income during the three-year period of 2001-2003.

Also during the quarter, independent oil and gas research firm J.S. Herold reported that in 2000 Chesapeake led the industry in return on average equity and capital employed and tied for third in return on average assets. We are very pleased with Herold's recognition and confirmation of Chesapeake's continuing goal of delivering the highest profit per unit of production in the independent oil and gas industry. Our unwavering focus on these important financial measures should generate ongoing and significant increases in future value for Chesapeake's shareholders."

ITEM 9. REGULATION FD DISCLOSURE.

The following was included in the Press Release:

With each earnings announcement, the company updates its forecasts and estimates. The following forecasts and estimates revise and replace in their entirety previous projections last updated on July 26, 2001. The company's forecasts and estimates are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially due to the risks and uncertainties identified at the end of this release. Furthermore, these projections do not reflect the potential impact of unforeseen events that may occur subsequent to the issuance of this release.

Chesapeake's current full-year 2001 guidance is based on projected production of 154-158 bcfe (89% gas) and projected per mcfe lease operating expenses of \$0.50-\$0.55, production taxes of \$0.23-\$0.27, interest expense of \$0.60-\$0.65, general and administrative costs of \$0.10-\$0.11 and DD&A of oil and gas properties of \$1.05-\$1.15. In addition, Chesapeake expects its tax rate to average 40%, of which virtually all should be deferred.

If the mid-points of the forecasted ranges described above are achieved and if NYMEX oil and gas prices average \$22.00 per bo and \$2.50 per mcf in the fourth quarter of 2001, Chesapeake expects to realize oil and gas revenue for the year of \$4.61 per mcfe and to generate ebitda of \$575-600 million, operating cash flow of \$475-500 million and net income of \$175-200 million, which includes \$57 million of risk management income (net of income tax) through September 30. If these assumptions are accurate, the company's 2001 cash flow and earnings per fully diluted share should range between \$2.75-3.00 and \$1.00-1.10, respectively.

Chesapeake's current 2002 guidance is based on projected production of 154-158 bcfe (86% gas) and projected per mcfe lease operating expenses of \$0.45-0.50, production taxes of \$0.18-0.22, interest expense of \$0.55-0.60, general and

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administrative costs of \$0.10-0.11 and DD&A of oil and gas properties of \$1.15-1.25. The company expects its 2002 tax rate to average 40%, of which virtually all should be deferred.

If the mid-points of the forecasted ranges described above are achieved and if NYMEX prices average \$3.25 per mcf and \$22.00 per barrel in 2002, Chesapeake expects to realize oil and gas revenue for the year of \$3.83 per mcfe and to generate ebitda of \$450-475 million, operating cash flow of \$375-400 million and net income of \$100-125 million, which excludes any potential effect from risk management income or loss. If these assumptions are accurate, the company's 2002 cash flow and earnings per fully diluted share should range between \$2.10-2.30 and \$0.60-0.70, respectively.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include estimates and give our current expectations or forecasts of future events. They are based on our historical operating trends, our existing commodity hedging position and our current estimate of proved reserves. Although we believe our forward-looking statements are reasonable, they can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. For example, statements concerning the fair values of derivative contracts and their estimated contribution to our future results of operations are based upon market information as of a specific date. These market prices are subject to significant volatility. Factors that could cause actual operating and financial results to differ materially from expected results include the volatility of oil and gas prices, our substantial indebtedness, our commodity price risk management activities, the cost and availability of drilling and production services, our ability to replace reserves, the availability of capital, uncertainties inherent in evaluating our own reserves and the reserves we acquire, drilling and operating risks and other risk factors described in the company's 2000 annual report on Form 10-K and subsequent filings with the Securities and Exchange Commission.

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

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SIGNATURE

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

BY: /s/ MARCUS C. ROWLAND

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MARCUS C. ROWLAND
Executive Vice President and
Chief Financial Officer

Dated: October 26, 2001