

CHESAPEAKE SOUTH TEXAS CORP

Form 424B2

May 10, 2007

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Filed pursuant to Rule 424(b)(2)

PROSPECTUS SUPPLEMENT

(TO PROSPECTUS DATED MAY 8, 2007)

**Chesapeake Energy Corporation**

\$1,000,000,000

2.500% Contingent Convertible Senior Notes due 2037

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The notes are convertible, at your option, prior to the maturity date into cash and, if applicable, shares of our common stock in the following circumstances:

prior to May 15, 2035, during specified periods if the Closing Sale Price of our common stock exceeds the threshold described herein;

on or after May 15, 2035, at all times;

during specified periods if the trading price of the notes is below the threshold described herein;

if we have called the particular notes for redemption and the redemption has not yet occurred; or

upon the occurrence of specified corporate transactions.

The Base Conversion Price per share is \$51.585, which represents a Base Conversion Rate of approximately 19.3855 shares of common stock per \$1,000 principal amount of notes. If, at the time of conversion, the Applicable Stock Price is less than or equal to the Base Conversion Price, the Applicable Conversion Rate will be equal to the Base Conversion Rate, as it may be adjusted. If the Applicable Stock Price is greater than the Base Conversion Price, then the Applicable Conversion Rate will be increased pursuant to the formula described in this prospectus supplement.

Subject to certain exceptions described in Description of Notes, at the time notes are tendered for conversion, the amount of cash and shares of our common stock, if any, to be received by a holder will be based on the Applicable Conversion Rate and the Closing Sale Price of our common stock on each of the 20 trading days in a specified period.

Our common stock is listed on the New York Stock Exchange under the symbol CHK. On May 9, 2007, the closing sale price of our common stock on the New York Stock Exchange was \$34.39 per share.

The notes will bear interest at a fixed annual rate of 2.500%, payable semi-annually on May 15 and November 15 of each year, commencing November 15, 2007. In addition, we will pay contingent interest during any six-month interest period, beginning with the six-month period ending November 14, 2017, under certain conditions.

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The notes will mature on May 15, 2037. We may redeem the notes, in whole at any time, or in part from time to time, on or after May 15, 2017 at a redemption price, payable in cash, of 100% of the principal amount of the notes, plus accrued and unpaid interest. Holders may require us to repurchase all or a portion of their notes on May 15, 2017, 2022, 2027 and 2032 at 100% of the principal amount of the notes, plus accrued and unpaid interest, payable in cash. Upon a fundamental change, as defined in the indenture governing the notes, holders may require us to repurchase all or a portion of their notes, at a price of 100% of the principal amount of the notes, plus accrued and unpaid interest, payable in cash.

The notes will be treated as contingent payment debt instruments that will be subject to special United States federal income tax rules. For discussion of the special tax rules governing contingent payment debt instruments, see Material U.S. Federal Income Tax Considerations.

The notes will be our senior unsecured obligations and will rank equally in right of payment to all of our existing and future senior indebtedness. The notes will be guaranteed by each of our existing subsidiaries, other than certain de minimus subsidiaries, and by certain of our future domestic subsidiaries on a senior unsecured basis. The notes and the guarantees will be effectively subordinated to our and our guarantor subsidiaries existing and future secured indebtedness, including indebtedness under our revolving bank credit facility, to the extent of the value of the assets securing such indebtedness.

Investing in our notes involves risks. See Risk Factors on page S-16.

	Price to	Underwriting Discounts and Commissions	Proceeds to
Per Note	Public(1) 100.00%	2.25%	Chesapeake Energy(1) 97.75%
Total	\$1,000,000,000	\$22,500,000	\$977,500,000

(1) Before expenses and plus accrued interest, if any from May 15, 2007.

We have granted the underwriters a 13-day option to purchase up to an additional \$150,000,000 in aggregate principal amount of the notes from us on the same terms and conditions as set forth above to cover over-allotments.

Delivery of the notes in book-entry form only will be made on or about May 15, 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the attached prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

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*Joint Global Coordinators and Book-Running Managers*

**Credit Suisse**

**UBS Investment Bank**

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*Joint Book-Running Managers*

**Banc of America Securities LLC**

**Barclays Capital**

**Deutsche Bank Securities**

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*Senior Co-Managers*

**BNP PARIBAS**

**Bear, Stearns & Co. Inc.**

**Fortis Securities LLC**

**Goldman, Sachs & Co.**

**Lehman Brothers**

**SunTrust Robinson Humphrey  
Wells Fargo Securities**

Wachovia Securities

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*Co-Managers*

**ABN AMRO Rothschild LLC**

**BMO Capital Markets**

**BOSC, Inc.**

**Calyon Securities (USA)**

**Citi**

**Comerica Securities**

**HVB Capital Markets, Inc.**

**Natexis Bleichroeder Inc.**

**RBC Capital Markets**

**Wedbush Morgan Securities Inc.**

**TD Securities**

**U.S. Bancorp Investments, Inc.**

The date of this prospectus supplement is May 10, 2007.

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**You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized any dealer, salesman or other person to provide you with additional or different information. This prospectus supplement and the accompanying prospectus are not an offer to sell or the solicitation of an offer to buy any securities other than the securities to which they relate and are not an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in that jurisdiction. You should not assume that the information in this supplement or the accompanying prospectus or in any document incorporated by reference in this supplement or the accompanying prospectus is accurate as of any date other than the date of the document containing the information.**

**NOTICE TO INVESTORS**

This prospectus supplement and the accompanying prospectus do not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose other than the United States. Accordingly, the notes may not be offered or sold, directly or indirectly, and this supplement and the accompanying prospectus may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the notes or possess or distribute this prospectus supplement and the accompanying prospectus and you must obtain all applicable consents and approvals; neither we nor the underwriters shall have any responsibility for any of the foregoing legal requirements.



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Neither we nor the underwriters nor any of our or their respective representatives is making any representation to you regarding the legality of an investment in the notes, and you should not construe anything in this prospectus supplement or the accompanying prospectus as legal, business, tax or other advice. You should consult your own advisors as to the legal, tax, business, financial and related aspects of an investment in the notes. In making an investment decision regarding the notes, you must rely on your own examination of the issuer and the terms of the offering, including the merits and risks involved.

By accepting delivery of this prospectus supplement and the accompanying prospectus, you agree not to use any information herein for any purpose other than considering an investment in the notes.

This prospectus supplement and the accompanying prospectus contain summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein and therein will be made available to prospective investors upon request to us.

The underwriters, the trustee, the paying agents and any other agents acting with respect to the notes accept no responsibility for and make no representation or warranty, express or implied, as to the accuracy or completeness of the information set forth in this prospectus supplement and the accompanying prospectus and nothing contained in this prospectus supplement and the accompanying prospectus is, or should be relied upon as, a promise or representation by the underwriters, the trustee, the paying agents or any other agents acting with respect to the notes as to the past or the future.

Except where otherwise noted, the information contained in this prospectus supplement is as of the date hereof. Neither the delivery of this prospectus supplement and the accompanying prospectus at any time after the date of publication nor any subsequent commitment to purchase the notes shall, under any circumstances, create an implication that there has been no change in the information set forth in this prospectus supplement and the accompanying prospectus or in our business since the date of this prospectus supplement.

Neither the U.S. Securities and Exchange Commission (the SEC), any state securities commission nor any non-U.S. securities authority has approved or disapproved of these securities or determined that this prospectus supplement and the accompanying prospectus are accurate or complete. Any representation to the contrary is a criminal offense.

We reserve the right to withdraw this offering of the notes at any time. We and the underwriters also reserve the right to reject any offer to purchase the notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the notes sought by it. The underwriters and certain of their respective related entities may acquire, for their own accounts, a portion of the notes.

The underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may over-allot in connection with this offering and may bid for and purchase notes in the open market. For a description of these activities, see Underwriting.

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**NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ( RSA 421-B ) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights selected information from this prospectus supplement and the accompanying prospectus but may not contain all information that may be important to you. This prospectus supplement and the accompanying prospectus include specific terms of this offering, information about our business and financial data. We encourage you to read this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein in their entirety before making an investment decision. Unless otherwise indicated, this prospectus supplement assumes no exercise of the underwriter's option to purchase additional shares.*

**Chesapeake**

We believe we are the sixth largest producer of natural gas in the United States (third among independents), and we own interests in approximately 35,500 producing oil and natural gas wells that are currently producing approximately 1.8 billion cubic feet equivalent, or bcfе, per day, 92% of which is natural gas. Our strategy is focused on discovering, developing and acquiring conventional and unconventional natural gas reserves onshore in the U.S. east of the Rocky Mountains.

Our operations are located in the *Mid-Continent region*, which includes Oklahoma, Arkansas, southwestern Kansas and the Texas Panhandle; the *Fort Worth Basin* in north-central Texas; the *Appalachian Basin*, principally in West Virginia, eastern Kentucky, eastern Ohio and southern New York; the *Permian* and *Delaware Basins* of West Texas and eastern New Mexico; the *Ark-La-Tex* area of East Texas and northern Louisiana; and the *South Texas* and *Texas Gulf Coast regions*. We have established a top-three position in nearly every major shale play in the U.S., including the Fort Worth Barnett Shale, the Arkansas Fayetteville Shale, the Appalachian Basin Devonian Shale, the southeast Oklahoma Woodford Shale, the Delaware Basin Barnett and Woodford Shales, the Illinois Basin New Albany Shale and the Conasauga, Floyd and Chattanooga Shales in Alabama.

As of December 31, 2006, we had 9.0 trillion cubic feet equivalent, or tcfе, of proved reserves, of which 93% were natural gas and all of which were onshore. During 2006, we produced an average of 1.585 bcfе per day, a 23% increase over the 1.284 bcfе per day produced in 2005. For 2006, we generated net income available to common shareholders of \$1.904 billion, or \$4.35 per fully diluted common share, which was a 73% increase over the prior year.

During the first quarter of 2007, Chesapeake continued to lead the nation in drilling activity with an average utilization of 129 operated rigs and 94 non-operated rigs. Through this drilling activity, we drilled 476 (404 net) operated wells and participated in another 394 (57 net) wells operated by other companies during the first quarter of 2007. Our success rate was 99% for operated wells and 98% for non-operated wells. We replaced our 154 bcfе of production with an internally estimated 629 bcfе of new proved reserves for a reserve replacement rate of 410%. Reserve replacement through the drillbit was 535 bcfе, or 349% of production (including 205 bcfе of positive performance revisions and 135 bcfе of positive revisions resulting from oil and natural gas price increases between December 31, 2006 and March 31, 2007), and reserve replacement through acquisitions was 94 bcfе, or 61% of production. As a result, our proved reserves grew by 5% during the first quarter of 2007, from 9.0 tcfе to 9.4 tcfе. Of our 9.4 tcfе of proved reserves, 63% were proved developed reserves.

From January 1, 1998 through March 31, 2007, we were one of the most active consolidators of onshore U.S. natural gas assets, having purchased approximately 6.6 tcfе of proved reserves, at a total cost of approximately \$14.8 billion (including \$5.3 billion for unproved leasehold, but excluding \$996 million of deferred taxes established in connection with certain corporate acquisitions). Excluding the amounts allocated to unproved leasehold and deferred taxes, our acquisition cost per proved thousand cubic feet equivalent, or mcfе,



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was \$1.42 over this time period. Acquisition expenditures in the first quarter of 2007 totaled \$465 million (including \$258 million for unproved leasehold, but excluding \$7 million of deferred taxes established in connection with certain corporate acquisitions) as the company has shifted its acquisition focus to smaller tactical acquisitions around its existing assets from the larger strategic acquisitions it has made in the past few years.

### **Business Strategy**

Since our inception in 1989, Chesapeake's goal has been to create value for investors by building one of the largest onshore natural gas resource bases in the United States. For the past nine years, our strategy to accomplish this goal has been to focus onshore in the U.S. east of the Rockies where we believe that we can generate attractive risk adjusted returns. In building our industry-leading resource base, we have integrated an aggressive and technologically-advanced drilling program with an active property consolidation program focused on small to medium-sized corporate and property acquisitions.

To date, we have built leading positions in the Mid-Continent region, the Fort Worth Barnett Shale in North Texas, the South Texas and Texas Gulf Coast regions, the Permian and Delaware Basins of West Texas and eastern New Mexico, the Fayetteville Shale in Arkansas, the Ark-La-Tex area of East Texas and northern Louisiana, the Appalachian Basin, principally in West Virginia, eastern Kentucky, eastern Ohio and southern New York, the Caney and Woodford Shales in southeastern Oklahoma, the Barnett and Woodford Shales in west Texas and the Conasauga, Floyd and Chattanooga Shales of Alabama.

Key elements of this business strategy are further explained below:

*Grow through the Drillbit.* One of our most distinctive characteristics is our ability to increase reserves and production through the drillbit. We are currently utilizing 127 operated drilling rigs and 113 non-operated drilling rigs to conduct the most active drilling program in the U.S. We focus both on finding significant new natural gas reserves and developing existing proved reserves, principally at deeper depths than the industry average. For the past nine years, we have been actively investing in leasehold, 3-D seismic information and human capital to be able to take advantage of the favorable drilling economics that exist today. While we believe U.S. natural gas production has declined during the past six years, we are one of the few large-cap independent oil and natural gas companies that have been able to increase production, which we have successfully achieved for the past 17 consecutive years and 23 consecutive quarters. We believe key elements of the success and scale of our drilling programs have been our early recognition that natural gas prices were likely to move higher in the U.S. in the post-2000 period accompanied by our willingness to proactively hire new employees and to build the nation's largest onshore leasehold and 3-D seismic inventories, all of which are the building blocks of a successful large-scale drilling program.

*Make High-Quality Acquisitions.* Our acquisition program is focused on acquisitions of natural gas properties that offer high-quality, long-lived production and significant development and higher potential deep drilling opportunities. From January 1, 1998 through March 31, 2007, we purchased approximately 6.6 tcf of proved reserves, at a total cost of approximately \$14.8 billion (including \$5.3 billion for unproved leasehold, but excluding \$996 million of deferred taxes established in connection with certain corporate acquisitions). Excluding the amounts allocated to unproved leasehold and deferred taxes, our acquisition cost per proved mcfe was \$1.42 over this time period. The majority of these acquisitions either increased our ownership in existing wells or fields or added additional drilling locations in our focused operating areas.

*Focus on Low Costs.* By minimizing lease operating costs and general and administrative expense through focused activities and increased scale, we have been able to deliver attractive financial returns through all phases of the commodity price cycle. We believe our low cost structure is the result of management's effective cost-control programs, a high-quality asset base and extensive and competitive services, natural gas processing and transportation infrastructures that exist in our key operating areas. In addition, to control costs and service quality

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we have made significant investments in our drilling rig and trucking service operations and in our midstream gathering and compression operations. As of March 31, 2007, we operated approximately 61% of our wells, which delivered approximately 85% of our daily production volume. This large percentage of operated properties provides us with a high degree of operating flexibility and cost control.

*Build Regional Scale.* We believe one of the keys to success in the natural gas exploration industry is to build significant operating scale in a limited number of operating areas that share many similar geological and operational characteristics. Achieving such scale provides many benefits, the most important of which are higher per unit revenues, lower per unit operating costs, greater rates of drilling success, higher returns from more easily integrated acquisitions and higher returns on drilling investments. We first began pursuing this focused strategy in the Mid-Continent region in late 1997 and we are now the largest natural gas producer, the most active driller and the most active acquirer of leasehold and producing properties in the Mid-Continent. We believe this region, which trails only the Gulf Coast and Rocky Mountains in current U.S. natural gas production, has many attractive characteristics. These characteristics include long-lived natural gas properties with predictable decline curves, multi-pay geological targets that decrease drilling risk and have resulted in a drilling success rate of 97% over the past 17 years, generally lower service costs than in more competitive or more remote basins and a favorable regulatory environment with virtually no federal land ownership. We believe the other areas where we operate possess many of these same favorable characteristics and our goal is to become or remain a top three natural gas producer in each of our operating areas.

*Improve our Balance Sheet.* We have made significant progress in improving our balance sheet over the past eight years. From December 31, 1998 through March 31, 2007, we increased our stockholders' equity by \$11.3 billion through a combination of earnings and common and preferred equity issuances. As of March 31, 2007, our debt as a percentage of total capitalization (total capitalization is the sum of debt and stockholders' equity) was 43%, compared to 137% as of December 31, 1998. We believe our business strategy and operational performance will lead to an investment grade credit rating for our unsecured debt in the future.

Based on our view that natural gas will be in a tight supply/demand relationship in the U.S. during at least the next few years because of the significant structural challenges to growing natural gas supply and the growing demand for this clean-burning, domestically produced fuel, we believe our focused natural gas acquisition, exploitation and exploration strategy should provide substantial value-creating growth opportunities in the years ahead. Our goal is to increase our overall production by 14% to 18% in 2007 and 10% to 14% in 2008.

## **Company Strengths**

We believe the following six characteristics distinguish our past performance and differentiate our future growth potential from other independent natural gas producers:

*High-Quality Asset Base.* Our producing properties are characterized by long-lived reserves, established production profiles and an emphasis on onshore natural gas. Based upon current production and proved reserve estimates, our proved reserves-to-production ratio, or reserve life, is approximately 14.5 years. In addition, we believe we are the sixth largest producer of natural gas in the U.S. (third among independents) and the fifth largest owner of proved U.S. natural gas reserves (second among independents). In each of our operating areas, our properties are concentrated in locations that enable us to establish substantial economies of scale in drilling and production operations and facilitate the application of more effective reservoir management practices. We intend to continue building our asset base in each of our operating areas through a balance of acquisitions, exploitation and exploration.

*Large Inventory of Drilling Projects.* During the 17 years since our inception, we have been among the five most active drillers of new wells in the U.S. Presently, we are the most active driller in the U.S. with 127 operated and 113 non-operated rigs drilling. Through this high level of activity over the years, we have

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developed an industry-leading expertise in drilling deep vertical and horizontal wells in search of large natural gas accumulations in challenging conventional and unconventional reservoirs. As a result of our successful acquisition program and active leasehold acquisition and seismic acquisition strategies, we have been able to accumulate a U.S. onshore leasehold position of approximately 11.2 million net acres, and have acquired rights to 16.7 million acres of onshore 3-D seismic data to provide informational advantages over our competitors and to help evaluate our large acreage inventory. On this very large acreage position, our technical teams believe we have approximately 26,500 net exploratory and developmental drilling locations, representing a backlog of approximately 10 years of future drilling opportunities at current drilling rates.

*Successful Acquisition Program.* Our experienced acquisitions team focuses on enhancing and expanding our existing assets in each of our operating areas. These areas are characterized by long-lived natural gas reserves, low lifting costs, multiple geological targets, generally favorable basis differentials to benchmark commodity prices, well-developed oil and natural gas transportation infrastructures and considerable potential for further consolidation of assets. Since 1998, we have acquired approximately 6.6 tcf of proved reserves that replaced 258% of our total production. We believe we are well-positioned to continue making attractive acquisitions as a result of our extensive track record of identifying, completing and integrating multiple successful acquisitions, our large operating scale and our knowledge and experience in the regions in which we operate.

*Low-Cost Producer.* Our high-quality asset base, the work ethic of our employees, our hands-on management style and our headquarters location in Oklahoma City have enabled us to achieve a low operating and administrative cost structure. During the first quarter of 2007, our operating costs per unit of production were \$1.54 per mcf, which consisted of general and administrative expenses of \$0.34 per mcf (including non-cash stock-based compensation of \$0.07 per mcf), production expenses of \$0.93 per mcf and production taxes of \$0.27 per mcf. We believe this is one of the lowest cost structures among publicly-traded, large-cap independent oil and natural gas producers.

*Effective Hedging Program.* We have used and intend to continue using hedging programs to reduce the risks inherent in acquiring and producing oil and natural gas reserves, commodities that are frequently characterized by significant price volatility. We believe this price volatility is likely to continue in the years ahead and that we can use this volatility to our benefit by taking advantage of prices when they reach levels that management believes are either unsustainable for the long-term or provide unusually high rates of return on our invested capital. We currently have natural gas swaps in place covering 54% and 64% of our anticipated natural gas production for the remainder of 2007 and 2008, respectively, at average NYMEX prices of \$8.49 and \$9.20 per mcf, respectively, along with natural gas collars covering 13% of our anticipated natural gas production for the remainder of 2007 with an average NYMEX floor of \$6.88 per mcf and an average NYMEX ceiling of \$8.41 per mcf. Additionally, we have written call options covering 13% and 15% of our remaining 2007 and 2008 natural gas production, respectively, at a weighted average price of \$9.48 and \$10.39 per mcf, respectively. We have oil swaps in place covering 77% and 72% of our anticipated oil production for the remainder of 2007 and 2008, respectively, at average NYMEX prices of \$71.47 and \$72.61 per barrel of oil, respectively. During the first quarter of 2007, we realized gains from our hedging program of approximately \$433 million which increased our realized price per mcf by \$2.82.

*Entrepreneurial Management.* Our management team formed the company in 1989 with an initial capitalization of \$50,000 and fewer than ten employees. Since then, our management team has guided the company through various operational and industry challenges and extremes of oil and natural gas prices to create the third largest independent producer of natural gas in the U.S. with over 5,000 employees and an enterprise value of approximately \$27 billion. Our chief executive officer and co-founder, Aubrey K. McClendon, has been in the oil and natural gas industry for 26 years and beneficially owns, as of May 1, 2007, approximately 26.4 million shares of our common stock.

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**The Offering**

The summary below describes the principal terms of the notes. Some of the terms and conditions described below are subject to important limitations and exceptions. The **Description of Notes** section of this prospectus supplement contains a more detailed description of the terms and conditions of the notes.

Issuer	Chesapeake Energy Corporation.
Notes Offered	\$1,000,000,000 in aggregate principal amount of 2.500% Contingent Convertible Senior Notes due 2037; \$1,150,000,000 if the underwriters exercise their over-allotment option in full.
Maturity Date	May 15, 2037.
Interest	Interest on the notes will accrue at an annual rate of 2.500%. Interest will be paid semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2007.
Contingent Interest	We will pay additional interest, referred to in this prospectus supplement as contingent interest, during any six-month period from May 15 to November 14 or from November 15 to May 14, commencing with the six-month period ending November 14, 2017, if the average trading price of the notes for the five trading-day period ending on the third day immediately preceding the relevant six-month period equals or exceeds 120% of the principal amount of the notes. The amount of contingent interest payable per note in respect of any six-month period will be equal to 0.50% per annum of the average trading price of the notes during the applicable five trading-day period. See <b>Description of Notes</b> Contingent Interest.
Conversion Rights	Under the circumstances discussed below, you may surrender the notes for conversion, in whole or in part, into cash and, if applicable, shares of our common stock at any time on or before the close of business on May 15, 2037, unless the notes have been previously redeemed or repurchased. You may convert your notes only in the following circumstances: <p style="margin-left: 40px;">prior to May 15, 2035, during any calendar quarter (and only during such calendar quarter) commencing after the issue date of the notes, if the Closing Sale Price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 125% of the Base Conversion Price on such last trading day;</p> <p style="margin-left: 40px;">on or after May 15, 2035, at all times;</p> <p style="margin-left: 40px;">during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for the notes for each such trading day was less than 95% of the product of the average of the Closing Sale Prices of our common stock during such five trading-day period and the Applicable Conversion Rate;</p>



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if we have called the particular notes for redemption and the redemption has not yet occurred; or

upon the occurrence of specified corporate transactions described under Description of Notes Conversion Rights Conversion Upon Specified Corporate Transactions.

Conversion Rate

The Applicable Conversion Rate will be determined as follows:

If the Applicable Stock Price is less than or equal to the Base Conversion Price, then the Applicable Conversion Rate will be a number of shares of our common stock equal to the Base Conversion Rate.

If the Applicable Stock Price is greater than the Base Conversion Price, then the Applicable Conversion Rate will be determined in accordance with the following formula:

$$\text{Base Conversion Rate} + \left[ \frac{(\text{Applicable Stock Price} - \text{Base Conversion Price}) \times \text{Incremental Share Factor}}{\text{Applicable Stock Price}} \right]$$

The Base Conversion Price is \$51.585, subject to adjustment as described under Description of Notes Conversion Rights Conversion Price Adjustments.

The Base Conversion Rate per \$1,000 principal amount of notes is a number of shares of common stock (initially approximately 19.3855) determined by dividing \$1,000 by the Base Conversion Price.

The Incremental Share Factor is 9.6927, subject to the same proportional adjustment as the Base Conversion Rate, in each case based upon adjustments to the Base Conversion Price.

The Applicable Stock Price is equal to the average of the Closing Sale Prices of our common stock over the applicable Cash Settlement Averaging Period.

In addition, following certain corporate transactions that occur prior to May 15, 2017 and that also constitute a fundamental change (as defined in this prospectus supplement), we will increase the Applicable Conversion Rate for a holder who elects to convert its notes in connection with such corporate transactions in certain circumstances. See Description of Notes Conversion Rights Adjustment to Shares Delivered Upon Conversion Upon Certain Changes of Control. If such fundamental change also constitutes a public acquirer change of control (as defined in this prospectus supplement), we may, in lieu of increasing the Applicable Conversion Rate as described above, elect to adjust the related conversion obligation so that the notes are convertible into shares of the acquiring or surviving company. See Description of Notes Conversion Rights Conversion Upon a Public Acquirer Change of Control.

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Conversion Settlement: Once the notes are tendered for conversion, we will deliver to you in respect of each \$1,000 principal amount of notes surrendered for conversion a Settlement Amount equal to the sum of the Daily Settlement Amounts for each of the 20 consecutive trading days during the applicable Cash Settlement Averaging Period.

The Daily Settlement Amount, for each of the 20 consecutive trading days during a Cash Settlement Averaging Period, shall consist of:

cash equal to the lesser of \$50 and the Daily Conversion Value; and

to the extent the Daily Conversion Value exceeds \$50, a number of shares equal to (A) the difference between the Daily Conversion Value and \$50, divided by (B) the Closing Sale Price of our common stock for such day.

The Daily Conversion Value means, for each of the 20 consecutive trading days during a Cash Settlement Averaging Period, one-twentieth (1/20) of the product of (1) the Applicable Conversion Rate on such day and (2) the Closing Sale Price of our common stock on such day.

The Cash Settlement Averaging Period with respect to any note being converted means the 20 consecutive trading-day period beginning on and including the second trading day after a notice of conversion in respect of such note is delivered to the conversion agent, except that with respect to any notice of conversion received after the date of issuance of a notice of redemption as described under Description of Notes Optional Redemption of the Notes, the Cash Settlement Averaging Period means the 20 consecutive trading days beginning on and including the day which is the twenty-third scheduled trading day prior to the applicable redemption date.

We will deliver the Settlement Amount to you on the third business day immediately following the last day of the Cash Settlement Averaging Period in respect of such tendered notes.

Guarantees The notes will be unconditionally guaranteed, jointly and severally, by (i) each of our existing subsidiaries, other than certain de minimus subsidiaries, and (ii) each of our future domestic subsidiaries that guarantees any other indebtedness of us or a subsidiary guarantor in excess of \$5 million. The guarantee will be released if we dispose of the subsidiary guarantor or it ceases to guarantee certain other indebtedness of us or any other subsidiary guarantor.

Ranking The notes will be unsecured and will rank equally in right of payment to all of our existing and future senior indebtedness. The notes will rank senior in right of payment to all of our future subordinated

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indebtedness. Holders of our secured indebtedness have claims with respect to our assets constituting collateral for their indebtedness that are prior to your claims under the notes. Please read Description of Notes Ranking.

As of March 31, 2007, we had approximately \$8.5 billion in principal amount of senior indebtedness outstanding, \$1.153 billion of which was indebtedness under our secured revolving bank credit facility. Upon completion of this offering and the ultimate application of net proceeds therefrom as described under Use of Proceeds, on a pro forma as of March 31, 2007, we would have had approximately \$8.5 billion in principal amount of senior indebtedness outstanding, \$176 million of which would have been secured. As of May 9, 2007, we had outstanding borrowings of \$1.873 billion under our revolving bank credit facility.

Optional Redemption

We may redeem the notes, in whole at any time, or in part from time to time, on or after May 15, 2017 at a redemption price, payable in cash, of 100% of the principal amount of the notes, plus accrued and unpaid interest (including contingent interest, if any) up to but not including the date of redemption. See Description of Notes Optional Redemption of the Notes.

Repurchase of Notes at the Option of the Holder

You may require us to repurchase all or a portion of your notes on May 15, 2017, 2022, 2027 and 2032 at 100% of the principal amount of the notes, plus accrued and unpaid interest (including contingent interest, if any), up to but not including the date of repurchase, payable in cash. See Description of Notes Repurchase of Notes at the Option of the Holder.

Right to Require Repurchase of Notes Upon a Fundamental Change

If a fundamental change, as that term is defined in Description of Notes Right to Require Repurchase of Notes Upon a Fundamental Change, occurs, you may require that we repurchase your notes on the date fixed by us that is not less than 30 days nor more than 45 days after we give notice of the fundamental change. We will repurchase the notes for an amount equal to 100% of the principal amount of the notes, plus accrued and unpaid interest (including contingent interest, if any) up to but not including the date of repurchase, payable in cash. See Description of Notes Right to Require Repurchase of Notes Upon a Fundamental Change.

Sinking Fund

None.

Use of Proceeds

We expect the net proceeds to us from this offering, after deducting discounts to the underwriters and estimated expenses of the offering payable by us, to be approximately \$977.3 million. We intend to use the net proceeds from this offering to repay borrowings under our revolving bank credit facility. See Use of Proceeds.



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Material U.S. Federal Income Tax Considerations

For United States federal income tax purposes, the notes will be treated as indebtedness subject to the special regulations governing contingent payment debt instruments, which we refer to as the contingent payment debt regulations. Pursuant to the contingent payment debt regulations, a U.S. Holder (as defined under Material U.S. Federal Income Tax Considerations U.S. Holders ) will generally be required to accrue interest income on the notes, subject to certain adjustments, at a rate of 6.75%, compounded semi-annually, regardless of whether the holder uses the cash or accrual method of tax accounting. Accordingly, U.S. Holders will generally be required to include interest in taxable income in each year in excess of any interest payments (whether fixed or contingent) actually received in that year. For this purpose, a conversion of the notes will be treated as the receipt of a contingent payment with respect to the notes, which may produce an adjustment to a U.S. holder's interest accruals. Under the contingent payment debt regulations, gain recognized upon a sale, exchange, or redemption of a note will generally be treated as ordinary interest income; loss will be ordinary loss to the extent of interest previously included in income, and thereafter capital loss.

In addition, the conversion rate for the notes will be adjusted in certain circumstances, as described under Description of Notes Conversion Rights General and Description of Notes Conversion Rights Conversion Price Adjustments. Such adjustments (or failure to make adjustments) that have the effect of increasing your proportionate interest in our assets or earnings may in some circumstances result in a deemed distribution to you, notwithstanding the fact that you do not receive a cash payment. Any deemed distribution will be taxable as a dividend, return of capital, or capital gain in accordance with the tax rules applicable to corporate distributions. Deemed dividends received by U.S. Holders may not be eligible for the reduced rates of tax applicable to qualified dividend income or to the dividends received deduction generally available to U.S. corporations, and deemed dividends received by Non-U.S. Holders (as defined under Material U.S. Federal Income Tax Considerations Non-U.S. Holders ) may be subject to United States federal gross income and withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. Because any deemed distributions resulting from certain adjustments, or failures to make adjustments, to the conversion rate described under Material U.S. Federal Income Tax Considerations Non-U.S. Holders Dividends on Common Stock and Constructive Distributions will not give rise to any cash from which any applicable United States federal withholding tax can be satisfied, the indenture provides that we (or a third party withholding agent) may set off any withholding tax that we (or such third party) are required to collect with respect to any such deemed distribution against cash payments of interest or from cash or shares of our common stock deliverable to a holder upon a conversion, redemption or repurchase of a note. See Material U.S. Federal Income Tax Considerations.

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Book-Entry, Delivery and Form

Initially, the notes will be represented by one or more permanent global certificates in definitive, fully registered form deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company.

Common Stock

Our common stock is listed for trading on the NYSE under the symbol CHK.

**Risk Factors**

An investment in the notes involves certain risks that a potential investor should carefully evaluate prior to making an investment in the notes. Please read Risk Factors beginning on page S-16.

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The following tables set forth summary consolidated financial data as of and for each of the three years ended December 31, 2006, 2005 and 2004 and three months ended March 31, 2007 and 2006. This data was derived from our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2006 and from our unaudited condensed consolidated financial statements included in our quarterly report on Form 10-Q for the three months ended March 31, 2007, each of which is incorporated by reference herein. The financial data below should be read together with, and are qualified in their entirety by reference to, our historical consolidated financial statements and the accompanying notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations which are set forth in such annual report on Form 10-K and quarterly report on Form 10-Q.

	Year Ended December 31,			Three Months Ended March 31,	
	2006	2005	2004	2007	2006
	(\$ in thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Revenues:					
Oil and natural gas sales	\$ 5,618,894	\$ 3,272,585	\$ 1,936,176	\$ 1,124,518	\$ 1,510,821
Oil and natural gas marketing sales	1,576,391	1,392,705	773,092	421,914	404,367
Service operations revenue	130,310			33,408	29,379
<b>Total revenues</b>	<b>7,325,595</b>	<b>4,665,290</b>	<b>2,709,268</b>	<b>1,579,840</b>	<b>1,944,567</b>
Operating costs:					
Production expenses	489,499	316,956	204,821	142,271	119,392
Production taxes	176,440	207,898	103,931	41,891	55,373
General and administrative expenses	139,152	64,272	37,045	52,397	28,791
Oil and natural gas marketing expenses	1,521,848	1,358,003	755,314	406,758	391,360
Service operations expense	67,922			21,657	14,437
Oil and natural gas depreciation, depletion and amortization	1,358,519	894,035	582,137	393,331	304,957
Depreciation and amortization of other assets	104,240	50,966	29,185	35,900	23,872
Employee retirement expense	54,753				54,753
Provision for legal settlements			4,500		
<b>Total operating costs</b>	<b>3,912,373</b>	<b>2,892,130</b>	<b>1,716,933</b>	<b>1,094,205</b>	<b>992,935</b>
Income from operations	&nbsp;				