

CHESAPEAKE ENERGY CORP

Form 424B3

April 11, 2018

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Registration Statement No. 333-223189

PROSPECTUS

Chesapeake Energy Corporation

Offers to Exchange

\$1,300,000,000 of 8.00% Senior Notes due 2025

that have been registered under the Securities Act of 1933

for any and all outstanding

\$1,300,000,000 of 8.00% Senior Notes due 2025

that have not been registered under the Securities Act of 1933

and

\$1,300,000,000 of 8.00% Senior Notes due 2027

that have been registered under the Securities Act of 1933

for any and all outstanding

\$1,300,000,000 of 8.00% Senior Notes due 2027

that have not been registered under the Securities Act of 1933

Each series of exchange notes:

- will be freely tradable upon exchange;
- will be issued under the same indenture as the corresponding series of outstanding notes; and
- will have terms identical in all material respects to the terms of the corresponding series of outstanding notes, except that (i) the transfer restrictions and registration rights applicable to the outstanding notes do not apply to the exchange notes and (ii) the exchange notes will not contain provisions relating to additional interest relating to our registration obligations

The exchange offers:

- expire at 5:00 p.m., New York City time, on May 9, 2018, unless extended; and
- are not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered.

You should note that:

- we will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of the corresponding series of exchange notes that we have registered under the Securities Act;
- all interest due and payable on the outstanding notes will become due on the same terms under the exchange notes;
- you may withdraw tenders of outstanding notes at any time prior to the expiration of the exchange offers for that series;
- if you fail to tender your outstanding notes, you will continue to hold unregistered, restricted securities, and your ability to transfer them could be adversely affected;
- each series of outstanding notes may be exchanged for the corresponding series of exchange notes only in minimum denominations of \$2,000 and integral multiples of \$1,000;
- the exchange of outstanding notes for exchange notes in the exchange offers will not be a taxable event for U.S. federal income tax purposes; and

- we will not receive any proceeds from these exchange offers.
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Please read “Risk Factors” beginning on page 13 for a discussion of factors you should consider before participating in the exchange offers.

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

Each broker-dealer that receives exchange notes for its own account pursuant to these exchange offers in exchange for outstanding notes that were acquired by that broker-dealer as a result of market-making or other trading activities must acknowledge by way of the letter of transmittal that it will deliver a prospectus (or, to the extent permitted by law, make available a prospectus) to purchasers in connection with any resale of the exchange notes. This prospectus, as it may be amended or supplemented from time to time, may be used by such a broker-dealer in connection with resales of the notes received in the exchange offers. We have agreed to make this prospectus available to broker-dealers for use in connection with any such resale for a period ending on May 21, 2018. See “Plan of Distribution.”

YOU SHOULD READ THIS ENTIRE DOCUMENT AND THE ACCOMPANYING LETTER OF TRANSMITTAL AND RELATED DOCUMENTS AND ANY AMENDMENTS OR SUPPLEMENTS CAREFULLY BEFORE MAKING YOUR DECISION TO PARTICIPATE IN THE EXCHANGE OFFERS.

The date of this prospectus is April 11, 2018.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we filed with the SEC. We have not authorized anyone to provide you with any information or made any representation other than those contained in or incorporated by reference into this prospectus and in the letter of transmittal accompanying this prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We are not making any offer to sell or exchange these securities in any jurisdiction where the offer is not permitted. You should assume that the information contained in this prospectus or in the documents incorporated by reference into this prospectus are accurate only as of the date on the front cover of this prospectus or the date of such incorporated documents, as the case may be.

This prospectus incorporates by reference important business and financial information about us that is not included in or delivered with this prospectus. This information is available without charge upon written or oral request directed to: Chesapeake Energy Corporation, 6100 North Western Avenue, Oklahoma City, Oklahoma, 73118; Attention: Investor Relations; telephone number: (405) 848-8000. To obtain timely delivery, you must request the information no later than May 2, 2018. The exhibits to the documents incorporated by reference will generally not be made available unless they are specifically incorporated by reference in the documents.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the internet at the SEC's website at www.sec.gov. You may also read and copy any document that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You can call the SEC at 1-800-SEC-0330 for further information on the public reference room and its copy charges. We maintain a website at www.chk.com, where we post our SEC filings. The information on, or accessible from, our website is not a part of this prospectus and is not incorporated by reference in this prospectus.

We incorporate by reference information into this prospectus, which means that we disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. Unless this prospectus or the information incorporated by reference herein indicates that another date applies, you should not assume that the information in this prospectus is current as of any date other than the date of this prospectus or that any information we have incorporated by reference herein is accurate as of any date other than the date of the document incorporated by reference.

We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended (the "Exchange Act") (excluding information furnished and not filed in accordance with SEC rules), on or after the date of this prospectus and until the exchange offers described in this prospectus are completed or otherwise terminated. These reports contain important information about us, our financial condition and our results of operations.

• our Annual Report on Form 10-K for the fiscal year ended December 31, 2017; and
the information included in Chesapeake's Definitive Proxy Statement on Schedule 14A filed on April 6, 2018 to the extent incorporated by reference in Part III of Chesapeake's Annual Report on Form 10-K for the year ended December 31, 2017.

You may request a copy of our filings, at no cost, by writing or telephoning us at the following address or phone number:

Chesapeake Energy Corporation
Attention: Investor Relations
6100 North Western Avenue
Oklahoma City, Oklahoma 73118
(405) 848-8000

THE INFORMATION CONTAINED IN OUR WEBSITE IS NOT INCORPORATED BY REFERENCE AND DOES NOT CONSTITUTE A PART OF THE PROSPECTUS.

FORWARD-LOOKING STATEMENTS

This prospectus includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Forward-looking statements include our current expectations or forecasts of future events, including statements regarding planned debt reductions, cash flow, improvements in margin and other statements that are not statements of fact. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as “expect,” “could,” “may,” “anticipate,” “intend,” “plan,” “ability,” “believe,” “seek,” “see,” “will,” “would,” “estimate,” “forecast,” “target,” “guidance,” “opportunity” or “strategy.”

Although we believe the expectations and forecasts reflected in our forward-looking statements are reasonable, they are inherently subject to numerous risks and uncertainties, most of which are difficult to predict and many of which are beyond the Company's control. No assurance can be given that such forward-looking statements will be correct or achieved or that the assumptions are accurate or will not change over time. Particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include:

- the volatility of oil, natural gas and NGL prices;
- uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and projecting future rates of production and the amount and timing of development expenditures;
- our ability to replace reserves and sustain production;
- drilling and operating risks and resulting liabilities;
- our ability to generate profits or achieve targeted results in drilling and well operations;
- the limitations our level of indebtedness may have on our financial flexibility;
- our inability to access the capital markets on favorable terms;
- the availability of cash flows from operations and other funds to finance reserve replacement costs or satisfy our debt obligations;
- adverse developments or losses from pending or future litigation and regulatory proceedings, including royalty claims;
- effects of environmental protection laws and regulation on our business;
- terrorist activities and/or cyber-attacks adversely impacting our operations; and
- other factors that are described under Risk Factors in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

We caution you not to place undue reliance on the forward-looking statements contained in this prospectus, which speak only as of the filing date of the document in which they are made, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures in this prospectus and our other filings with the SEC and incorporated by reference herein that attempt to advise interested parties of the risks and factors that may affect our business. Please see “Where You Can Find More Information.”

SUMMARY

This summary highlights information included or incorporated by reference in this prospectus. It may not contain all of the information that is important to you. This prospectus includes information about the exchange offers and the exchange notes and includes or incorporates by reference information about our business and our financial and operating data. Before deciding to participate in the exchange offers, you should read this entire prospectus carefully, including the information incorporated by reference in this prospectus and the “Risk Factors” section beginning on page 13 of this prospectus.

Except as otherwise required or indicated, references to the “Company,” “Chesapeake,” “we,” “our,” “us” or like terms refer to Chesapeake Energy Corporation and its subsidiaries, collectively.

CHESAPEAKE ENERGY CORPORATION

Chesapeake Energy Corporation is an independent oil and natural gas exploration and production company engaged in the acquisition, exploration and development of properties for the production of oil, natural gas and NGLs from underground reservoirs. We own a large and geographically diverse resource base of onshore U.S. unconventional natural gas and liquids assets, including interests in approximately 17,300 oil and natural gas wells. We have leading positions in the liquids-rich resource plays of the Eagle Ford Shale in South Texas, the Anadarko Basin in northwestern Oklahoma and the stacked pay in the Powder River Basin in Wyoming. Our natural gas resource plays are the Marcellus Shale in the northern Appalachian Basin in Pennsylvania, the Haynesville/Bossier Shales in northwestern Louisiana and East Texas and the Utica Shale in Ohio.

We are an Oklahoma corporation. Our principal offices are located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118, and our telephone number is 405-935-8000. Further information is available at www.chk.com. Information that you may find on our website is not part of this prospectus and is not incorporated by reference into this prospectus.

EXCHANGE OFFERS

On December 20, 2016, we issued \$1,000,000,000 aggregate principal amount of 8.00% Senior Notes due 2025 (the “initial 2025 notes”) in a transaction exempt from or not subject to registration under the Securities Act. In connection therewith, Chesapeake Energy Corporation and certain subsidiary guarantors named therein entered into a registration rights agreement (the “initial 2025 registration rights agreement”) with Deutsche Bank Securities Inc. pursuant to which we agreed, among other things, to use our commercially reasonable efforts to complete an exchange offer for the initial 2025 notes on or prior to June 13, 2018.

On October 12, 2017, we issued an additional \$300,000,000 of the 8.00% Senior Notes due 2025 (the “additional 2025 notes” and, together with the initial 2025 notes, the “outstanding 2025 notes”) in a transaction exempt from or not subject to registration under the Securities Act. The additional 2025 notes were issued as “additional notes” under the indenture pursuant to which we had issued the previously issued 2025 notes. The additional 2025 notes had identical terms as the previously issued 2025 notes, other than the issue date. In connection therewith, Chesapeake Energy Corporation and certain subsidiary guarantors named therein entered into a registration rights agreement (the “second 2025 registration rights agreement” and, together with the initial 2025 registration rights agreement, the “2025 registration rights agreements”) with Morgan Stanley & Co. LLC pursuant to which we agreed, among other things, to use our commercially reasonable efforts to complete an exchange offer for the additional 2025 notes on or prior to June 13, 2018. The previously issued 2025 notes do not currently trade fungibly under the same CUSIP number with the additional 2025 notes. Upon the completion of this exchange offer of the 2025 exchange notes, we expect that such 2025 exchange notes issued in respect of both the previously issued 2025 notes and the additional 2025 notes will trade fungibly under the same CUSIP number.

On June 6, 2017, we issued \$750,000,000 aggregate principal amount of 8.00% Senior Notes due 2027 (the “initial 2027 notes”) in a transaction exempt from or not subject to registration under the Securities Act. In connection therewith, Chesapeake Energy Corporation and certain subsidiary guarantors named therein entered into a registration rights agreement (the “initial 2027 registration rights agreement”) with Citigroup Global Markets Inc. pursuant to which we agreed, among other things, to use our commercially reasonable efforts to complete an exchange offer for the initial 2027 notes on or prior to November 28, 2018.

On October 12, 2017, we issued an additional \$550,000,000 of 8.00% Senior Notes due 2027 (the “additional 2027 notes” and, together with the initial 2027 notes, the “outstanding 2027 notes”) in a transaction exempt from or not subject to registration under the Securities Act. The additional 2027 notes were issued as “additional notes” under the indenture pursuant to which we had issued the previously issued 2027 notes. The additional 2027 notes had identical terms as the previously issued 2027 notes, other than the issue date. In connection therewith, Chesapeake Energy Corporation and certain subsidiary guarantors named therein entered into a registration rights agreement (the “second 2027 registration rights agreement” and, together with the initial 2027 registration rights agreement, the “2027 registration rights agreements”) with Morgan Stanley & Co. LLC pursuant to which we agreed, among other things, to use our commercially reasonable efforts to complete an exchange offer for the additional 2027 notes on or prior to November 28, 2018. The 2025 registration rights agreements and 2027 registration rights agreements are collectively referred to as the “registration rights agreements” and the outstanding 2025 notes and the outstanding 2027 notes are collectively referred to as the “outstanding notes.”

We refer to the offers to exchange, collectively, as the “exchange offers.”

The following is a summary of the exchange offers.

Outstanding
Notes

On December 20, 2016, we issued \$1,000,000,000 aggregate principal amount of the initial 2025 notes. On October 12, 2017, we issued \$300,000,000 aggregate principal amount of the additional 2025 notes.

Exchange
Notes

On June 6, 2017, we issued \$750,000,000 aggregate principal amount of the initial 2027 notes. On October 12, 2017, we issued \$550,000,000 aggregate principal amount of the additional 2027 notes. The notes to be issued upon exchange of the outstanding 2025 notes (the “2025 exchange notes”) will be our 8.00% Senior Notes due 2025, having terms that are identical in all material respects to the terms of the outstanding 2025 notes, except that (i) the transfer restrictions and registration rights applicable to the outstanding 2025 notes do not apply to the 2025 exchange notes and (ii) the 2025 exchange notes will not contain provisions relating to additional interest relating to our registration obligations.

The notes to be issued upon exchange of the outstanding 2027 notes (the “2027 exchange notes” and, together with the 2025 exchange notes, the “exchange notes”) will be our 8.00% Senior Notes due 2027, having terms that are identical in all material respects to the terms of the outstanding 2027 notes, except that (i) the transfer restrictions and registration rights applicable to the outstanding 2027 notes do not apply to the 2027 exchange notes and (ii) the 2027 exchange notes will not contain provisions relating to additional interest relating to our registration obligations.

Exchange
Offers

We are offering to exchange up to \$1,300,000,000 aggregate principal amount of our 8.00% Senior Notes due 2025 for an equal amount of our outstanding 8.00% Senior Notes due 2025 and up to \$1,300,000,000 aggregate principal amount of our 8.00% Senior Notes due 2027 for an equal amount of our outstanding 8.00% Senior Notes due 2027 to satisfy our respective obligations under the registration rights agreements.

Expiration
Date

The exchange offers will expire at 5:00 p.m., New York City time, on May 9, 2018, unless we decide to extend them.

Conditions to
the Exchange
Offers

We will not accept outstanding notes for exchange if the exchange offers or the making of any exchange by a holder of the outstanding notes would violate any applicable law or SEC policy. A minimum aggregate principal amount of outstanding notes being tendered is not a condition to either of the exchange offers. Please read “Exchange Offers—Conditions to the Exchange Offers” for more information about the conditions to the exchange offers.

Procedures for Tendering Outstanding Notes	<p>All of the outstanding notes are held in book-entry form through the facilities of The Depository Trust Company (“DTC”). To participate in the exchange offers, you must follow the automatic tender offer program (“ATOP”) procedures established by DTC for tendering notes held in book-entry form. The ATOP procedures require that the exchange agent receive, prior to the expiration date of the exchange offers, a computer-generated message known as an “agent’s message” that is transmitted through ATOP and that DTC confirm that:</p> <ul style="list-style-type: none">• DTC has received instructions to exchange your notes; and• you agree to be bound by the terms of the letter of transmittal in Annex A hereto. <p>For more details, please read “Exchange Offers—Terms of the Exchange Offers” and “Exchange Offers—Procedures for Tendering.”</p>
Guaranteed Delivery Procedures	<p>None.</p>
Withdrawal of Tenders	<p>You may withdraw your tender of outstanding notes at any time prior to the expiration date. To withdraw, you must submit a notice of withdrawal to the exchange agent using ATOP procedures before 5:00 p.m., New York City time, on the expiration date of the exchange offers. Please read “Exchange Offers—Withdrawal of Tenders.”</p>
Acceptance of Outstanding Notes and Delivery of Exchange Notes	<p>If you fulfill all conditions required for proper acceptance of outstanding notes, we will accept any and all outstanding notes that you properly tender in the exchange offers before 5:00 p.m., New York City time, on the expiration date. We will return any outstanding notes that we do not accept for exchange to you without expense promptly after the expiration date. We will deliver the exchange notes promptly after the expiration date. Please read “Exchange Offers—Terms of the Exchange Offers.”</p>
Special Procedures for Beneficial Owners	<p>If you own a beneficial interest in outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender the outstanding notes in the exchange offers, please contact the registered holder as soon as possible and instruct it to tender on your behalf and to comply with our instructions described in this prospectus.</p>
Fees and Expenses	<p>We will bear all expenses related to the exchange offers. Please read “Exchange Offers—Fees and Expenses.”</p>
Use of Proceeds	<p>The issuance of the exchange notes will not provide us with any new proceeds. We are making the exchange offers solely to satisfy our obligations under the registration rights agreements.</p>

Consequences of Failure to Exchange Outstanding Notes

If you do not exchange your outstanding notes in the exchange offers, you will no longer be able to require us to register the outstanding notes under the Securities Act, except in the limited circumstances provided under the applicable registration rights agreement. In addition, you will not be able to resell, offer to resell or otherwise transfer the outstanding notes unless we have registered the outstanding notes under the Securities Act, or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act. If you fail to exchange your outstanding notes for exchange notes in the exchange offers, the existing transfer restrictions will remain in effect and the market value of your outstanding notes likely will be adversely affected because of a smaller float and reduced liquidity.

Certain U.S. Federal Tax Consequences

The exchange of exchange notes for outstanding notes in the exchange offers will not be a taxable event for U.S. federal income tax purposes. Please read "Certain U.S. Federal Tax Consequences."

We have appointed Deutsche Bank Trust Company Americas as the exchange agent for the exchange offers. You should direct questions and requests for assistance and requests for additional copies of this prospectus (including the letter of transmittal) to the exchange agent addressed as follows:

Exchange Agent

By Mail:
DB Services Americas, Inc.
MS: JCK01-0218
Attention: Reorg. Department
5022 Gate Parkway, Suite 200
Jacksonville, FL 32256

By Overnight Mail or Courier:
DB Services Americas, Inc.
MS: JCK01-0218
Attention: Reorg. Department
5022 Gate Parkway, Suite 200
Jacksonville, FL 32256

DB.Reorg@db.com
Fax: 615-866-3889
Telephone Assistance (877) 843-9767

TERMS OF THE EXCHANGE NOTES

Each series of exchange notes will be identical in all material respects to the corresponding series of outstanding notes, except that (i) the transfer restrictions and registration rights applicable to the outstanding notes do not apply to the exchange notes and (ii) the exchange notes will not contain provisions relating to additional interest relating to our registration obligations. Each series of exchange notes will evidence the same debt as the corresponding series of outstanding notes and will be issued under the same indenture as the corresponding series of outstanding notes. We sometimes refer to both the exchange notes and the outstanding notes as the “notes.”

The following summary contains basic information about the exchange notes and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the exchange notes, please read “Description of the Notes.”

Issuer Chesapeake Energy Corporation, an Oklahoma corporation.

Exchange Notes Offered \$1,300,000,000 aggregate principal amount of 8.00% Senior Notes due 2025 and \$1,300,000,000 aggregate principal amount of 8.00% Senior Notes due 2027.

Maturity Date The 2025 exchange notes will mature on January 15, 2025.
The 2027 exchange notes will mature on June 15, 2027.

Interest Rate The 2025 exchange notes bear interest at 8.00% per annum.
The 2027 exchange notes bear interest at 8.00% per annum.

Interest Payment Dates	<p>Interest on the 2025 exchange notes will accrue at an annual rate of 8.00% and will be payable semiannually in arrears on January 15 and July 15 of each year to the holders of record of the 2025 exchange notes at the close of business on January 1 and July 1 preceding such interest payment dates, respectively. No interest will be paid on either the 2025 exchange notes or the outstanding 2025 notes at the time of exchange. Interest on the 2025 exchange notes will accrue from January 15, 2018 or, if interest has since been paid on the outstanding 2025 notes, from the date it was most recently paid. Assuming the 2025 exchange notes are issued prior to July 15, 2018, holders of outstanding 2025 notes that are accepted for exchange will be deemed to have waived the right, if any, to receive any payment in respect of interest accrued on the outstanding 2025 notes from January 15, 2018 until the date of the issuance of the 2025 exchange notes. Holders of the 2025 exchange notes will receive the same interest payments that they would have received had they not accepted the exchange offer.</p> <p>Interest on the 2027 exchange notes will accrue at an annual rate of 8.00% and will be payable semiannually in arrears on June 15 and December 15 of each year to the holders of record of the 2027 exchange notes at the close of business on June 1 and December 1 preceding such interest payment dates, respectively. No interest will be paid on either the 2027 exchange notes or the outstanding 2027 notes at the time of exchange. Interest on the 2027 exchange notes will accrue from December 15, 2017 or, if interest has since been paid on the outstanding 2027 notes, from the date it was most recently paid. Assuming the 2027 exchange notes are issued prior to June 15, 2018, holders of outstanding 2027 notes that are accepted for exchange will be deemed to have waived the right, if any, to receive any payment in respect of interest accrued on the outstanding 2027 notes from December 15, 2017 until the date of the issuance of the 2027 exchange notes. Holders of the 2027 exchange notes will receive the same interest payments that they would have received had they not accepted the exchange offer.</p>
Guarantees	<p>The exchange notes will be jointly and severally, fully and unconditionally guaranteed by the subsidiary guarantors, subject to limitations. As of the date hereof, the subsidiary guarantors include each of our subsidiaries that guarantee our revolving credit facility, as amended from time to time (the “credit facility”), secured term loan (the “term loan”) and 8.00% Senior Secured Second Lien Notes due 2022 (the “second lien notes”).</p> <p>In the future, the guarantees may be released under certain circumstances. Please read “Description of the Notes—Guarantees.”</p> <p>As of December 31, 2017, the subsidiary guarantors had no significant indebtedness other than guarantees of our senior notes, credit facility, term loan and second lien notes.</p> <p>As of December 31, 2017, our non-guarantor subsidiaries held less than 1% of our consolidated total assets and had no third-party indebtedness, and for the year ended December 31, 2017, had revenues representing less than 1% of our consolidated revenues.</p>

Ranking

The indebtedness evidenced by the exchange notes and the guarantees will be unsecured and will rank pari passu in right of payment to all senior indebtedness of us and the subsidiary guarantors thereto, as the case may be. Secured debt and other secured obligations of us and the subsidiary guarantors (including obligations with respect to our credit facility, term loan and second lien notes) will be effectively senior to the exchange notes and the subsidiary guarantors' guarantee thereof to the extent of the value of the assets securing such debt or other obligations. The exchange notes will be structurally subordinated to creditors (including trade creditors) and any preferred security holders of our subsidiaries that are not subsidiary guarantors, and each guarantee of the exchange notes will be structurally subordinated to creditors (including trade creditors) and any preferred security holders of any subsidiary of a subsidiary guarantor that is not itself a subsidiary guarantor.

As of December 31, 2017, we had total consolidated indebtedness of \$9.981 billion aggregate principal amount, \$6.551 billion of which was unsecured indebtedness, and \$3.430 billion of which was secured indebtedness (which would have been effectively senior to the exchange notes to the extent of the value of the collateral securing such indebtedness). Please read "Risk Factors—Risks Relating to the Notes—Holders of the notes will be effectively subordinated to all of our and our subsidiaries' secured indebtedness and obligations, and to the obligations of our nonguarantor subsidiaries."

Optional
Redemption

Beginning on January 15, 2020, with respect to the 2025 exchange notes, and beginning on June 15, 2022, with respect to the 2027 exchange notes, we may redeem the applicable series of notes, in whole or in part, at our option, at the applicable redemption prices listed under "Description of Notes—Optional Redemption," plus accrued and unpaid interest, if any, to the applicable redemption date. Prior to January 15, 2020, with respect to the 2025 exchange notes, and prior to June 15, 2022, with respect to the 2027 exchange notes, we will be entitled at our option to redeem the applicable series of notes, in whole or in part, pursuant to a "make-whole" call, plus accrued and unpaid interest, if any, to the applicable redemption date. See "Description of Notes—Optional Redemption."

Equity
Offering
Optional
Redemption

Any time prior to January 15, 2020, with respect to the 2025 exchange notes, and any time prior to June 15, 2020, with respect to the 2027 exchange notes, we will be entitled at our option on any one or more occasions to redeem up to 35% of the aggregate principal amount of the applicable series of the exchange notes issued under the applicable indenture at a redemption price of 108.00% of the principal amount of the applicable series of exchange notes, plus accrued and unpaid interest, if any, to the applicable redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date), with an amount of cash not greater than the net proceeds of certain public or private equity offerings by the Company, provided that at least 65% of the aggregate principal amount of the applicable series of exchange notes issued under the applicable indenture (excluding exchange notes of such series held by the Company and its subsidiaries) remains outstanding immediately after the occurrence of such redemption and the redemption occurs within 180 days of the date of the closing of such equity offering.

Restrictive Covenants	<p>The indentures governing the exchange notes each contain covenants that limit our ability and the ability of certain of our subsidiaries to:</p> <ul style="list-style-type: none">• create liens securing certain indebtedness;• enter into certain sale-leaseback transactions; and• consolidate, merge or transfer assets. <p>The covenants are subject to a number of exceptions and qualifications. See “Description of Notes—Certain Covenants.”</p>
Transfer Restrictions; Absence of Public Market for the Notes	<p>The exchange notes will be freely transferable, but will also be new securities for which there will not initially be a market. We have not applied, and do not intend to apply, for listing of the exchange notes on any securities exchange. We cannot assure you that an active market for the exchange notes will develop or as to the liquidity of any such market. Please read “Risk Factors.”</p>
Book-Entry Form	<p>The exchange notes will be initially issued in the form of one or more global notes, without interest coupons (the “global notes”). Upon issuance, each of the global notes will be deposited with the trustee as custodian for DTC, and registered in the name of Cede & Co., as nominee of DTC. Beneficial interests in any of the global notes will be shown on, and transfers of the global notes will be effected only through, records maintained by DTC or its nominee. Beneficial interests in global notes may not be exchanged for certificated securities, except in limited circumstances. Please read “Book-entry, Delivery and Form.”</p>
Denominations	<p>The exchange notes will be issued in minimum denominations of \$2,000 and in integral multiples of \$1,000 in excess thereof.</p>
Certain United States Federal Income Tax Considerations	<p>For certain U.S. federal income tax considerations relating to the purchase, ownership and disposition of the new notes, please read “Certain United States Federal Income Tax Considerations.”</p>
Trustee and Paying Agent	<p>Deutsche Bank Trust Company Americas, a New York banking corporation.</p>
Governing Law	<p>The exchange notes and the indentures under which they are issued will be governed by New York law.</p>
Use of Proceeds	<p>The issuance of the exchange notes will not provide us with any new proceeds. We are making the exchange offers solely to satisfy our obligations under the registration rights agreements.</p>
Risk Factors	<p>See “Risk Factors” for a discussion of certain factors that you should carefully consider before deciding to invest in the exchange notes.</p>

RISK FACTORS

Before deciding to participate in the exchange offers, you should consider carefully the risks and uncertainties described below and in Item 1A “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2017, as updated by annual, quarterly and other reports and documents we file with the SEC after the date of this prospectus and until the exchange offer described in this prospectus is completed or otherwise terminated, together with all of the other information included or incorporated by reference in this prospectus. If any of the described risks actually were to occur, our business, financial condition, results of operations or growth prospects could be affected materially and adversely. In that case, our ability to fulfill our obligations under the exchange notes could be materially affected, and you could lose all or part of your investment.

The risks described below and in the documents we have incorporated by reference are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial individually or in the aggregate may also impair our business operations.

This prospectus and the documents we have incorporated by reference also contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks and uncertainties faced by us described below or incorporated by reference into this prospectus.

Risks Relating to the Exchange Offers

If you fail to exchange outstanding notes, existing transfer restrictions will remain in effect and the market value of outstanding notes may be adversely affected because of a smaller float and reduced liquidity.

If you fail to exchange outstanding notes for corresponding exchange notes under the exchange offers, then you will continue to be subject to the existing transfer restrictions on the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except in connection with these exchange offers or as required by the registration rights agreements, Chesapeake Energy Corporation and the subsidiary guarantors do not intend to register resales of the outstanding notes.

The tender and acceptance of outstanding notes under the exchange offers will reduce the principal amount of the applicable series of currently outstanding notes. The corresponding reduction in liquidity may have an adverse effect upon, and increase the volatility of, the market price of any currently outstanding notes that you continue to hold following completion of the exchange offers.

If you wish to tender your outstanding notes for exchange, you must comply with the requirements described in this prospectus.

We will only issue exchange notes in exchange for outstanding notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the outstanding notes and you should carefully follow the instructions on how to tender your outstanding notes. Neither we nor the exchange agent is required to tell you of any defects or irregularities with respect to your tender of outstanding notes.

You will receive exchange notes in exchange for outstanding notes tendered and accepted for exchange pursuant to the exchange offers only after timely receipt by the exchange agent of book-entry transfer of outstanding notes into the exchange agent’s account at DTC, as depositary. If you wish to tender your outstanding notes in exchange for corresponding exchange notes, you should allow sufficient time for delivery. Neither we nor the exchange agent is required to notify you of defects or irregularities in tenders of outstanding notes for exchange. Outstanding notes that are not tendered or that are tendered but we do not accept for exchange will, following consummation of the exchange

offers, continue to be subject to the existing

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transfer restrictions under the Securities Act and, upon consummation of the exchange offers, certain registration and other rights under the registration rights agreements will terminate. See “The Exchange Offers—Procedures for Tendering Outstanding Notes” and “The Exchange Offers—Consequences of Failing to Exchange Outstanding Notes.”

Some holders who exchange their outstanding notes may be deemed to be underwriters, and these holders will be required to comply with the registration and prospectus delivery requirements in connection with any resale transaction.

If you exchange your outstanding notes in the exchange offers for the purpose of participating in a distribution of the exchange notes, you may be deemed to have received restricted securities and, if so, will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Any broker-dealer that will receive exchange notes for its own account in exchange for outstanding notes that were acquired as a result of market-making activities or other trading activities may be a statutory underwriter and must deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such exchange notes.

Risks Relating to the Exchange Notes and Guarantees

Holders of the exchange notes will be effectively subordinated to all of our and our subsidiaries’ secured indebtedness and obligations (to the extent of the collateral securing the same), and to the obligations of our non-guarantor subsidiaries.

Holders of our secured indebtedness and other secured obligations, which currently consist primarily of the indebtedness under our credit facility, our term loan and our second lien notes, have claims with respect to certain assets constituting collateral for their indebtedness and obligations that are prior to your claims on such assets under the exchange notes. In the event of a default on the exchange notes or our bankruptcy, liquidation or reorganization, those assets would be available to satisfy obligations with respect to the indebtedness and obligations secured thereby before they would be available to satisfy obligations with respect to the exchange notes. Accordingly, our secured indebtedness and obligations would effectively be senior to the exchange notes to the extent of the value of the collateral securing that indebtedness and those obligations. In addition, our credit facility, our term loan and the indentures governing our existing notes permit us to incur additional secured indebtedness or other obligations. Holders of any such additional secured indebtedness or other obligations would also have claims with respect to our assets constituting collateral for their indebtedness and obligations that are prior to your claims on such assets under the exchange notes. To the extent the value of the collateral is not sufficient to satisfy such indebtedness and obligations, the holders of that indebtedness and those obligations would be entitled to share with the holders of the exchange notes and the holders of other claims against us with respect to our other assets. In addition, in certain circumstances a subsidiary may not be required to be, or may be delayed in becoming, a subsidiary guarantor. The exchange notes also will be structurally subordinated to any indebtedness and obligations of, or the rights of a holder (other than us or a subsidiary guarantor) of preferred stock of, a non-sub subsidiary guarantor. Our unrestricted subsidiaries do not guarantee any of our other senior indebtedness and will not guarantee the exchange notes offered hereby.

As of December 31, 2017, we had total consolidated indebtedness of \$9.981 billion aggregate principal amount, \$6.551 of which was unsecured indebtedness, and \$3.430 of which was secured indebtedness (which would have been effectively senior to the exchange notes to the extent of the value of the collateral securing such indebtedness). Despite our current debt levels, we may still incur substantially more debt or take other actions which would intensify the risks discussed above.

Despite our current consolidated debt levels, we and our subsidiaries may be able to incur substantially more debt in the future, subject to the restrictions contained in our credit facility, our term loan and the indentures governing our existing notes, some of which may be secured debt. We will not be restricted under the terms of the indentures governing the exchange notes from incurring additional debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indentures governing the exchange notes that could have the effect of diminishing our ability to make payments on the exchange notes when due. Our credit facility and term loan limit our

ability to incur additional indebtedness,

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and those facilities and the indentures governing our existing notes limit our ability to incur secured indebtedness, but if our credit facility, our term loan and existing notes mature or are repaid, as applicable, we may not be subject to such restrictions under the terms of any subsequent indebtedness.

The indentures governing the exchange notes, our credit facility, our term loan and the indentures governing our existing notes contain operating and financial restrictions that may restrict our business and financing activities. The primary restrictive covenants contained in the indentures under which the exchange notes will be issued will limit only our ability and the ability of certain of our subsidiaries to create liens securing certain indebtedness, enter into certain sale-leaseback transactions and consolidate, merge or transfer assets.

Our ability to comply with the covenants and restrictions contained in the indentures governing the exchange notes, our credit facility, our term loan and the indentures governing our existing notes may be affected by events beyond our control. If market or other economic conditions deteriorate, our ability to comply with these covenants and restrictions may be impaired. A failure to comply with the covenants, ratios or tests in the indentures governing the exchange notes, our credit facility, our term loan, the indentures governing our existing notes or our future indebtedness, which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations. Among other things, in the event of any default on our indebtedness, our debt holders and lenders:

- will not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable (and, with respect to our secured indebtedness, foreclose on the collateral securing such indebtedness);
- could elect to require that all obligations accrue interest at the default rate, if such rate has not already been imposed;
- may have the ability to require us to apply all of our available cash to repay these borrowings; or
- may prevent us from making debt service payments under our other agreements, any of which could result in an event of default under the exchange notes.

If our existing indebtedness were to be accelerated, there can be no assurance that we would have, or be able to obtain, sufficient funds to repay such indebtedness in full. Even if new financing were available, it may be on terms that are less attractive to us than our existing credit facility or it may not be on terms that are acceptable to us. For additional information please read "Description of the Notes."

The exchange notes are not subject to a change-of-control put option and lack many of the covenants typically found in other comparably rated public debt securities.

Although we anticipate that the exchange notes will be rated below investment grade by both Standard & Poor's and Moody's Investors Service, they lack the protection for holders that is provided by a change-of-control put option and several financial and other restrictive covenants typically associated with comparably rated public debt securities, including:

- incurrence of additional indebtedness;
- payment of dividends and other restricted payments;
- sale of assets and the use of proceeds therefrom;
- transactions with affiliates; and
- dividend and other payment restrictions affecting subsidiaries.

The primary restrictive covenants contained in the indentures governing the exchange notes will limit our ability and certain of our subsidiaries' ability to create liens securing certain indebtedness, enter into certain sale-leaseback transactions and consolidate, merge or transfer assets.

There will be no or a limited public market for the exchange notes, and you may find it difficult to sell your notes. The exchange notes will be issued as new securities, and we have not applied, and do not intend to apply, for listing of the exchange notes on any securities exchange or to arrange for quotation of the exchange notes on any automated dealer quotation system. We cannot assure you that an active market for the exchange notes will develop.

If the exchange notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the price and volatility of our common stock, our performance and other factors. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. We cannot assure you that the market, if any, for the notes will be free from similar disruptions. Any such disruption may adversely affect the prices at which you may sell your exchange notes.

To the extent that an active trading market for the exchange notes does not develop or continue to exist, the liquidity and trading prices for the exchange notes may be harmed. Thus, you may not be able to liquidate your investment rapidly, and your lenders may not readily accept the exchange notes as collateral for loans. You should not purchase the exchange notes unless you understand, and know you can bear, all of the investment risks involving the exchange notes.

Our debt ratings have been downgraded recently. Any adverse rating of the exchange notes may cause their respective trading prices to fall.

Since December 2015, Moody's Investor Services, Inc. and Standard & Poor's Rating Services have lowered the Company's senior unsecured credit ratings. If there are further downgrades of our debt securities, or notices of potential downgrades, the trading prices of the exchange notes could decline. We do not intend to seek a rating on the exchange notes. However, if a rating service were to rate the exchange notes and if such rating service were to lower its rating on either series of the exchange notes below the rating initially assigned to the respective series of exchange notes or otherwise announces its intention to put the exchange notes on credit watch, the trading price of the respective exchange notes could decline.

Subsidiaries that are not guarantors of the exchange notes will have no obligation to pay amounts due under the exchange notes.

The exchange notes initially will be jointly and severally guaranteed by certain of our existing subsidiaries and may be guaranteed in the future by certain of our subsidiaries that incur or guarantee certain other indebtedness. Except for such guarantors of the exchange notes, our subsidiaries will have no obligation, contingent or otherwise, to pay amounts due under the exchange notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment. The exchange notes will be our senior unsecured obligations and will rank equally with all of our existing and future unsecured senior indebtedness and senior in right of payment to any future subordinated indebtedness. The guarantees of the exchange notes will rank equal in right of payment with all of the existing and future senior indebtedness of our subsidiary guarantors and senior in right of payment to any future subordinated indebtedness of our subsidiary guarantors. The exchange notes and guarantees will be effectively subordinated to all of our secured indebtedness (including all borrowings under our credit facility, our term loan and our second lien notes) to the extent of the value of the collateral securing such indebtedness and structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries that do not guarantee the exchange notes. In the event of insolvency, liquidation, reorganization, dissolution or other winding up of any subsidiary that is not a guarantor, all of that subsidiary's creditors (including trade creditors) would be entitled to payment in full out of that subsidiary's assets before the holders of the exchange notes would be entitled to any payment. As a result, your ability to make a claim against our non-guarantor subsidiaries may be limited.

We may in the future have additional non-guarantor subsidiaries and your ability to make a claim against such subsidiaries may also be limited. In addition, the indentures governing the exchange notes will permit all of these non-

guarantor subsidiaries to incur additional indebtedness and will not contain any limitation on the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries.

In addition, any of our subsidiaries that provide guarantees of the exchange notes will be automatically released from those exchange notes guarantees upon the occurrence of certain events, including (i) a sale or other disposition of all or substantially all of its assets or (ii) if it no longer guarantees other indebtedness of us or other guarantors.

If any exchange note guarantee is released, no holder of the respective exchange notes will have a claim as a creditor against that subsidiary, and the indebtedness and other liabilities, including trade payables and preferred stock, if any, whether secured or unsecured, of that subsidiary will be effectively senior to the claim of any holders of the respective series of exchange notes. See “Description of the Notes—Guarantees.”

A subsidiary guarantee of the exchange notes could be voided if it constitutes a fraudulent transfer under federal bankruptcy law or similar state law, which would prevent the holders of the exchange notes from relying on that subsidiary to satisfy claims.

Under U.S. bankruptcy law and comparable provisions of state fraudulent transfer laws, our subsidiary guarantees of the exchange notes can be voided, or claims under the subsidiary guarantees may be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee or, in some states, when payments become due under the guarantee, received less than reasonably equivalent value or fair consideration for the incurrence of the guarantee and:

- was insolvent or rendered insolvent by reason of such incurrence of the obligations under the guarantee;
- was engaged in a business or transaction for which the guarantor’s remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond its ability to pay those debts as they mature.

Our subsidiary guarantees of the exchange notes may also be voided, without regard to the above factors, if a court finds that the guarantor entered into the guarantee with the actual intent to hinder, delay or defraud its other creditors.

A court would likely find that a guarantor did not receive reasonably equivalent value or fair consideration for its guarantee of the exchange notes if the guarantor did not substantially benefit directly or indirectly from the issuance of the guarantee. If a court were to void a subsidiary guarantee, you would no longer have a claim against that guarantor. Sufficient funds to repay the exchange notes may not be available from other sources, including the remaining guarantors, if any. In addition, the court might direct you to repay any amounts that you already received from the guarantor.

The measures of insolvency for purposes of fraudulent transfer laws vary depending upon the governing law.

Generally, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, were greater than the fair saleable value of all its assets;

- the present fair saleable value of its assets is less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

Each subsidiary guarantee contains a provision intended to limit the guarantor’s liability to the maximum amount that it could incur without causing the incurrence of obligations under its subsidiary guarantee to be a fraudulent transfer.

We cannot assure you that this limitation will protect the subsidiary guarantees from fraudulent transfer challenges or, if it does, that the remaining amount due and collectible under the guarantees would suffice, if necessary, to pay the exchange notes in full when due. Such provision may not be effective to protect the subsidiary guarantees from being voided under fraudulent transfer law.

USE OF PROCEEDS

The exchange offers are intended to satisfy the obligations of Chesapeake Energy Corporation and the subsidiary guarantors under the registration rights agreements. We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offers. In consideration for issuing the exchange notes as contemplated by this prospectus, we will receive corresponding outstanding notes in a like principal amount. The form and terms of each series of the exchange notes are identical in all respects to the form and terms of the corresponding series and issuance of outstanding notes, except that (i) the transfer restrictions and registration rights applicable to the outstanding notes do not apply to the exchange notes and (ii) the exchange notes will not contain provisions relating to additional interest relating to the registration obligations of Chesapeake Energy Corporation and the subsidiary guarantors. Outstanding notes surrendered in exchange for the exchange notes will be retired and cancelled and will not be reissued. Accordingly, the issuance of the exchange notes will not result in any change in our outstanding indebtedness.

RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth the unaudited consolidated ratios of earnings to fixed charges for Chesapeake on a historical basis:

	Years Ended December 31,				
	2017	2016(2)	2015(3)	2014	2013
Ratio of earnings to fixed charges(1)	2.9	—	—	4.8	2.2

(1) For purposes of determining the ratios of earnings (loss) to fixed charges, earnings (loss) are defined as net income (loss) before income taxes, cumulative effect of accounting changes, interest expense, pretax gain or loss on investment in equity investees in excess of distributed earnings, amortization of capitalized interest and loan cost amortization. Fixed charges consist of interest (whether expensed or capitalized and the amortization of bond discounts and excluding the effect of unrealized gains or losses on interest rate derivatives), and loan cost amortization.

(2) The amount by which earnings were insufficient to cover fixed charges was approximately \$4.085 billion for the year ended December 31, 2016.

(3) The amount by which earnings were insufficient to cover fixed charges was approximately \$18.861 billion for the year ended December 31, 2015.

EXCHANGE OFFERS

Purpose of the Exchange Offer

The outstanding notes were issued to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to non-U.S. persons pursuant to Regulation S under the Securities Act.

Because the outstanding notes were issued in transactions that were exempt from or not subject to the registration requirements under the Securities Act, the outstanding notes are subject to transfer restrictions. In general, you may not offer or sell the outstanding notes unless either they are registered under the Securities Act or the offer or sale is exempt from or not subject to registration under the Securities Act and applicable state securities laws. In connection with the issuance of the outstanding notes, Chesapeake Energy Corporation and the subsidiary guarantors entered into the registration rights agreements, pursuant to which we agreed, among other things, to use our commercially reasonable efforts to complete the exchange offer for the outstanding 2025 notes on or prior to June 13, 2018 and to complete the exchange offer for the outstanding 2027 notes on or prior to November 28, 2018.

Resale of Exchange Notes

Based on no-action letters of the SEC staff issued to third parties, we believe that exchange notes may be offered for resale, resold and otherwise transferred by you without further compliance with the registration and prospectus delivery provisions of the Securities Act if:

- you are not an “affiliate” of us within the meaning of Rule 405 under the Securities Act;
- such exchange notes are acquired in the ordinary course of your business; and
- you are not engaged in, and do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes.

The SEC staff, however, has not considered our exchange offers for the exchange notes in the context of a no-action letter, and the SEC staff may not make a similar determination as in the no-action letters issued to these third parties.

If you tender in the exchange offers with the intention of participating in any manner in a distribution of the exchange notes, you

- cannot rely on such interpretations by the SEC staff; and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

Unless an exemption from registration is otherwise available, any securityholder intending to distribute exchange notes should be covered by an effective registration statement under the Securities Act. The registration statement should contain the selling security holder’s information required by Item 507 or 508, as applicable, of Regulation S-K under the Securities Act.

This prospectus may be used for an offer to resell, resale or other transfer of exchange notes only as specifically described in this prospectus. Failure to comply with the registration and prospectus delivery requirements by a holder subject to these requirements could result in that holder incurring liability for which it is not indemnified by us. If you are a broker-dealer, you may participate in the exchange offer only if you acquired the outstanding notes for your own account as a result of market-making activities or other trading activities. Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, may be deemed to be an “underwriter” within the meaning of the Securities Act and must acknowledge by way of the letter of transmittal that it will deliver this prospectus in connection with any resale of

the exchange notes. Please read the section captioned “Plan of Distribution” for more details regarding the transfer of exchange notes.

Terms of the Exchange Offers

Upon the terms and subject to the conditions described in this prospectus and in the letter of transmittal, we will accept for exchange any outstanding notes validly tendered and not properly withdrawn prior to 5:00 p.m., New York City time, on the expiration date of the exchange offers. We will issue exchange notes in principal amount equal to the principal amount of the corresponding series of outstanding notes surrendered in the exchange offers. Outstanding notes may be tendered only for the respective series of exchange notes and only in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

The exchange offers are not conditioned upon any minimum aggregate principal amount of either series of outstanding notes being tendered in the exchange offers.

As of the date of this prospectus, \$1,300,000,000 in aggregate principal amount of the outstanding 2025 notes are outstanding and \$1,300,000,000 in aggregate principal amount of the outstanding 2027 notes are outstanding. This prospectus is being sent to DTC, the sole registered holder of each series of the outstanding notes. There will be no fixed record date for determining registered holders of outstanding notes entitled to participate in the exchange offers.

We intend to conduct the exchange offers in accordance with the provisions of the registration rights agreements, the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations of the SEC. Outstanding notes whose holders do not tender for exchange in the exchange offers will remain outstanding and continue to accrue interest. These outstanding notes will be entitled to the rights and benefits such holders have under the applicable indenture relating to such outstanding notes but will not retain any rights under the applicable registration rights agreement, except as otherwise specified therein.

We will be deemed to have accepted for exchange properly tendered outstanding notes when we have given oral or written notice of the acceptance to the exchange agent and complied with the applicable provisions of the corresponding registration rights agreement. The exchange agent will act as agent for the tendering holders for the purposes of receiving the exchange notes from us.

If you tender outstanding notes in the exchange offers, you will not be required to pay brokerage commissions or fees or, subject to the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes. We will pay all charges and expenses in connection with the exchange offers. Please read “—Fees and Expenses” for more details regarding fees and expenses incurred in connection with the exchange offers.

We will return any outstanding notes that we do not accept for exchange for any reason without expense to their tendering holders promptly after the expiration or termination of the exchange offers.

Expiration Date

The exchange offers will expire at 5:00 p.m., New York City time, on May 9, 2018, unless, in our sole discretion, we extend them.

Extensions, Delays in Acceptance, Termination or Amendment

We expressly reserve the right, at any time or various times, to extend the period of time during which the exchange offers are open. We may delay acceptance of any outstanding notes by giving oral or written notice of such extension to their

holders at any time until the exchange offers expire or terminate. During any such extensions, all outstanding notes previously tendered will remain subject to the exchange offers, and we may accept them for exchange.

To extend the exchange offers, we will notify the exchange agent of any extension. We will notify the holders of the applicable outstanding notes of the extension via a press release issued no later than 9:00 a.m., New York City time, on the business day after the previously scheduled expiration date.

If any of the conditions described below under “—Conditions to the Exchange Offers” have not been satisfied, we reserve the right, in our sole discretion:

- to delay accepting for exchange any outstanding notes;
- to extend the exchange offers; or
- to terminate the exchange offers

by giving notice of such delay, extension or termination to the exchange agent. Subject to the terms of the registration rights agreements, we also reserve the right to amend the terms of the exchange offers in any manner.

Any such delay in acceptance, extension, termination or amendment will be followed promptly by notice thereof to holders of the outstanding notes. If we amend the exchange offers in a manner that we determine to constitute a material change, we will promptly disclose such amendment by means of a prospectus supplement. The prospectus supplement will be distributed to holders of the outstanding notes. Depending upon the significance of the amendment and the manner of disclosure to holders, we will extend the exchange offers if they would otherwise expire during such period. If an amendment constitutes a material change to the exchange offers, including the waiver of a material condition, we will extend the exchange offers, if necessary, to remain open for at least five business days after the date of the amendment. In the event of any increase or decrease in the consideration we are offering for the outstanding notes or in the percentage of outstanding notes being sought by us, we will extend the exchange offers to remain open for at least 10 business days after the date we provide notice of such increase or decrease to the registered holders of outstanding notes.

Conditions to the Exchange Offers

We will not accept for exchange, or exchange any exchange notes for, any outstanding notes if the exchange offers, or the making of any exchange by a holder of outstanding notes, would violate applicable law or SEC policy. Similarly, we may terminate the exchange offers as provided in this prospectus before accepting outstanding notes for exchange in the event of such a potential violation.

We will not be obligated to accept for exchange the outstanding notes of any holder that has not made to us the representations described under “—Procedures for Tendering” and “Plan of Distribution” and such other representations as may be reasonably necessary under applicable SEC rules, regulations or interpretations to allow us to use an appropriate form to register the exchange notes under the Securities Act.

Additionally, we will not accept for exchange any outstanding notes tendered, and will not issue exchange notes in exchange for any such outstanding notes, if at such time any stop order has been threatened or is in effect with respect to the exchange offer registration statement of which this prospectus constitutes a part or the qualification of the indentures under the Trust Indenture Act of 1939, as amended.

We expressly reserve the right to amend or terminate the exchange offers, and to reject for exchange any outstanding notes not previously accepted for exchange, upon the occurrence of any of the conditions to the exchange offers specified above. We will promptly give notice of any extension, amendment, non-acceptance or termination to the holders of the outstanding notes.

These conditions are for our sole benefit, and we may assert them or waive them in whole or in part at any time or at various times prior to the expiration of the exchange offers in our sole discretion. If we fail at any time to exercise any of these rights, this failure will not mean that we have waived our rights. Each such right will be deemed an ongoing right that we may assert at any time or at various times prior to the expiration of the exchange offers.

Procedures for Tendering

To participate in the exchange offers, you must properly tender your outstanding notes to the exchange agent as described below. We will only issue exchange notes in exchange for outstanding notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the outstanding notes, and you should follow carefully the instructions on how to tender your outstanding notes. It is your responsibility to properly tender your outstanding notes. We have the right to waive any defects. However, we are not required to waive defects, and neither we nor the exchange agent is required to notify you of any defects in your tender.

If you have any questions or need help in exchanging your outstanding notes, please call the exchange agent whose address and phone number are described in the letter of transmittal included as Annex A to this prospectus.

All of the outstanding notes were issued in book-entry form, and all of the outstanding notes are currently represented by global certificates registered in the name of Cede & Co., the nominee of DTC. We have confirmed with DTC that the outstanding notes may be tendered using ATOP. The exchange agent will establish an account with DTC for purposes of the exchange offers promptly after the commencement of the exchange offers, and DTC participants may electronically transmit their acceptance of the exchange offers by causing DTC to transfer their outstanding notes to the exchange agent using the ATOP procedures. In connection with the transfer, DTC will send an “agent’s message” to the exchange agent. The agent’s message will state that DTC has received instructions from the participant to tender outstanding notes and that the participant agrees to be bound by the terms of the letter of transmittal.

By using the ATOP procedures to exchange outstanding notes, you will not be required to deliver a letter of transmittal to the exchange agent. However, you will be bound by its terms just as if you had signed it.

There is no procedure for guaranteed late delivery of the outstanding notes.

If you beneficially own outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender those notes, you should contact the registered holder as soon as possible and instruct the registered holder to tender on your behalf.

Determinations Under the Exchange Offers.

We will determine in our sole discretion all questions as to the validity, form, eligibility, time of receipt, acceptance of tendered outstanding notes and withdrawal of tendered outstanding notes. Our determination will be final and binding. We reserve the absolute right to reject any outstanding notes not properly tendered or any outstanding notes our acceptance of which might, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defect, irregularities or conditions of tender as to particular outstanding notes. Our interpretation of the terms and conditions of the exchange offers, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, all defects or irregularities in connection with tenders of outstanding notes must be cured within such time as we shall determine. Although we intend to notify holders of defects or irregularities with respect to tenders of outstanding notes, neither we, the exchange agent nor any other person will incur any liability for failure to give such notification. Tendere of outstanding notes will not be deemed made until such defects or irregularities have been cured or waived. Any outstanding notes received by the

exchange agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned to the tendering holder promptly following the expiration date of the exchange offers.

When We Will Issue Exchange Notes.

In all cases, we will issue exchange notes for the corresponding outstanding notes that we have accepted for exchange under the exchange offers only after the exchange agent receives, prior to 5:00 p.m., New York City time, on the expiration date,

- a book-entry confirmation of such outstanding notes into the exchange agent's account at DTC; and
- a properly transmitted agent's message.

Such notes will be issued promptly following the expiration of the exchange offers.

Return of Outstanding Notes Not Accepted or Exchanged.

If we do not accept any tendered outstanding notes for exchange or if outstanding notes are submitted for a greater principal amount than the holder desires to exchange, the unaccepted or non-exchanged outstanding notes will be returned without expense to their tendering holder. Such non-exchanged outstanding notes will be credited to an account maintained with DTC. These actions will occur promptly after the expiration or termination of the exchange offers.

Your Representations to Us.

By agreeing to be bound by the letter of transmittal, you will represent to us that, among other things:

- any exchange notes to be received by you will be acquired in the ordinary course of your business;
- you have no arrangement or understanding with any person or entity to participate in the distribution (within the meaning of the Securities Act) of the exchange notes in violation of the provisions of the Securities Act;
- you are not an "affiliate," as defined in Rule 405 under the Securities Act, of us;
- if you are not a broker-dealer, you are not engaged in, and do not intend to engage in, the distribution of the exchange notes; and
- if you are a broker-dealer that will receive exchange notes for your own account in exchange for corresponding outstanding notes that were acquired as a result of market-making or other trading activities, then you will deliver this prospectus (or, to the extent permitted by law, make this prospectus available to purchasers) in connection with any resale of the exchange notes.

Further, you will acknowledge and agree that that any broker-dealer or holder using the exchange offers to participate in a distribution of exchange notes to be acquired in the exchange offers (i) could not under SEC policy as in effect on the date of this prospectus rely on the position of the SEC enunciated in Morgan Stanley and Co., Inc. (available June 5, 1991) and Exxon Capital Holdings Corporation (available May 13, 1988), as interpreted in the SEC's letter to Shearman & Sterling dated July 2, 1993, and similar no-action letters, and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction and that such a secondary resale transaction should be covered by an effective registration statement containing the selling security holder information required by Item 507 or 508, as applicable, of Regulation S-K if the resales are of exchange notes obtained by such holder in exchange for corresponding outstanding notes acquired by such holder directly from us.

Withdrawal of Tenders

Except as otherwise provided in this prospectus, you may withdraw your tender at any time prior to 5:00 p.m., New York City time, on the expiration date of the exchange offers. For a withdrawal to be effective you must comply with the appropriate ATOP procedures. Any notice of withdrawal must specify the name and number of the account at DTC to be credited with withdrawn outstanding notes and otherwise comply with the ATOP procedures.

We will determine in our sole discretion all questions as to the validity, form, eligibility and time of receipt of a notice of withdrawal. Our determination shall be final and binding on all parties. We will deem any outstanding notes so withdrawn not to have been validly tendered for exchange for purposes of the exchange offers.

Any outstanding notes that have been tendered for exchange but that are not exchanged for any reason will be credited to an account maintained with DTC for the outstanding notes. This return or crediting will take place promptly after withdrawal, rejection of tender, expiration or termination of the exchange offers. You may retender properly withdrawn outstanding notes by following the procedures described under “—Procedures for Tendering” above at any time on or prior to the expiration date of the exchange offers.

Fees and Expenses

We will bear the expenses of soliciting tenders. The principal solicitation is being made by mail; however, we may make additional solicitation by e-mail, telephone or in person by our officers and regular employees and those of our affiliates.

We have not retained any dealer manager in connection with the exchange offers and will not make any payments to broker-dealers or others soliciting acceptances of the exchange offers. We will, however, pay the exchange agent reasonable and customary fees for its services and reimburse it for its related reasonable out-of-pocket expenses.

We will pay the cash expenses to be incurred in connection with the exchange offers. They include:

- SEC registration fees;
- fees and expenses of the exchange agent and trustee;
- accounting and legal fees and printing costs; and
- related fees and expenses.

Transfer Taxes

We will pay all transfer taxes, if any, applicable to the exchange of outstanding notes under the exchange offers. Each tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if a transfer tax is imposed for any reason other than the exchange of outstanding notes under the exchange offers.

Consequences of Failure to Exchange

If you do not exchange your outstanding notes for exchange notes under the exchange offers, the outstanding notes you hold will continue to be subject to the existing restrictions on transfer, will continue to accrue interest but will not retain any rights under the applicable registration rights agreement, except as otherwise provided in that agreement. In general, you may not offer or sell the outstanding notes except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Chesapeake and the subsidiary guarantors do not intend to register outstanding notes under the Securities Act unless the applicable registration rights agreement requires them to do so.

Accounting Treatment

We will record the exchange notes in our accounting records at the same carrying value as the respective outstanding notes. Accordingly, we will not recognize any gain or loss for accounting purposes in connection with the exchange offers, other than the recognition of the fees and expenses of the offerings as stated under “—Fees and Expenses.”

Other

Participation in the exchange offers is voluntary, and you should consider carefully whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

We may in the future seek to acquire untendered outstanding notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plans to acquire any outstanding notes that are not tendered in the exchange offers or to file a registration statement to permit resales of any untendered outstanding notes.

DESCRIPTION OF THE NOTES

We have summarized selected provisions of the exchange notes below. We will issue the exchange notes, and we issued the outstanding notes, under the Indenture, dated as of April 24, 2014 (the “base indenture”), between us, the subsidiary guarantors named therein and Deutsche Bank Trust Company Americas, as trustee, as supplemented by the Sixth Supplemental Indenture, dated as of December 20, 2016 (the “sixth supplemental indenture”), establishing the terms of the outstanding 2025 notes and 2025 exchange notes (collectively, the “2025 notes”), and the Seventh Supplemental Indenture, dated as of June 6, 2017 (the “seventh supplemental indenture” and, together with the sixth supplemental indenture, the “supplemental indentures”), establishing the terms of the outstanding 2027 notes and the 2027 exchange notes (collectively, the “2027 notes”). We have filed the base indenture and the supplemental indentures as exhibits to the registration statement of which this prospectus is a part. In this “Description of the Notes” section, when we refer to the “indenture,” we mean the base indenture as supplemented by the applicable supplemental indenture. The terms of the exchange notes and the outstanding notes include those stated in the indentures and those made part of the indentures by reference to the Trust Indenture Act of 1939, as amended (the “Trust Indenture Act”).

The 2025 notes and the 2027 notes are two separate series of senior debt securities under the indentures. We urge you to read the base indenture and the supplemental indentures because they, and not this description, define your rights as holders of the notes. Our Floating Rate Senior Notes due 2019, 4.875% Senior Notes due 2022, 8.00% Senior Notes due 2025 and 8.00% Senior Notes due 2027 are currently outstanding under the base indenture.

If the exchange offers are consummated, holders of outstanding notes who do not exchange their outstanding notes for exchange notes will vote together with the holders of such exchange notes for all relevant purposes under the applicable indenture. In that regard, the indentures require that certain actions by the holders under the indentures (including acceleration after an Event of Default) may be taken, and certain rights may only be exercised, by specified minimum percentages of the aggregate principal amount of all outstanding notes and exchange notes of a series issued under the applicable indenture. In determining whether holders of the requisite percentage in principal amount have given any notice, direction, waiver, consent or taken any other action permitted under the applicable indenture, any outstanding notes that remain outstanding after the exchange offers will be aggregated with the corresponding series of exchange notes, and the holders of these outstanding notes and exchange notes will vote together as a single series for all such purposes. Accordingly, all references in this “Description of the Notes” to specified percentages in aggregate principal amount of the notes mean, at any time after the exchange offers are consummated, such percentage in aggregate principal amount of such outstanding notes and the exchange notes then outstanding of the applicable series.

In this description, the words “Chesapeake,” “Company,” “our,” “us” and “we” refer only to Chesapeake Energy Corporation and not to any of its subsidiaries. Unless the context otherwise requires, references to the notes herein include the outstanding notes and the exchange notes.

In addition, we have used in this description capitalized and other terms that we have defined below under “—Certain Definitions Related to the Notes” and in other parts of this description.

General

The notes will be general unsecured senior obligations of Chesapeake and will be guaranteed by the subsidiary guarantors as described below under “—Guarantees.” The indebtedness evidenced by the notes and the guarantees will rank pari passu in right of payment to all senior indebtedness of Chesapeake and the subsidiary guarantors, as the case may be.

The 2025 notes will mature on January 15, 2025. The 2027 notes will mature on June 15, 2027. We issued the outstanding notes, and will issue the exchange notes, in denominations of \$2,000 or integral multiples of \$1,000 in excess thereof.

Interest on the Notes

Interest on the 2025 exchange notes will accrue at an annual rate of 8.00% and will be payable semiannually in arrears on January 15 and July 15 of each year to the holders of record of the 2025 exchange notes at the close of business on January 1 and July 1 preceding such interest payment dates, respectively. No interest will be paid on either the 2025 exchange notes or the outstanding 2025 notes at the time of exchange. Interest on the 2025 exchange notes will accrue from January 15, 2018 or, if interest has since been paid on the outstanding 2025 notes, from the date it was most recently paid. Assuming the 2025 exchange notes are issued prior to July 15, 2018, holders of outstanding 2025 notes that are accepted for exchange will be deemed to have waived the right, if any, to receive any payment in respect of interest accrued on the outstanding 2025 notes from January 15, 2018 until the date of the issuance of the 2025 exchange notes. Holders of the 2025 exchange notes will receive the same interest payments that they would have received had they not accepted the exchange offer.

Interest on the 2027 exchange notes will accrue at an annual rate of 8.00% and will be payable semiannually in arrears on June 15 and December 15 of each year to the holders of record of the 2027 exchange notes at the close of business on June 1 and December 1 preceding such interest payment dates, respectively. No interest will be paid on either the 2027 exchange notes or the outstanding 2027 notes at the time of exchange. Interest on the 2027 exchange notes will accrue from December 15, 2017 or, if interest has since been paid on the outstanding 2027 notes, from the date it was most recently paid. Assuming the 2027 exchange notes are issued prior to June 15, 2018, holders of outstanding 2027 notes that are accepted for exchange will be deemed to have waived the right, if any, to receive any payment in respect of interest accrued on the outstanding 2027 notes from December 15, 2017 until the date of the issuance of the 2027 exchange notes. Holders of the 2027 exchange notes will receive the same interest payments that they would have received had they not accepted the exchange offer.

Interest on the notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Initially, the Trustee will act as paying agent and registrar for the notes.

Payment and Transfer

Initially, the notes will be issued only in global form registered in the name of Cede & Co., as nominee of DTC. Beneficial interests in notes in global form will be shown on, and transfers of interests in notes in global form will be made only through, records maintained by DTC and its participants. Any notes in definitive form may be presented for registration of transfer or exchange at the office or agency maintained by us for such purpose (which initially will be the corporate trust office of the Trustee).

Payment of principal, or any premium or interest on notes in global form registered in the name of DTC's nominee will be made in immediately available funds to DTC's nominee, as the registered holder of such global notes. If any of the notes is no longer represented by a global note, payment of interest on such notes in definitive form may, at our option, be made at the corporate trust office of the Trustee indicated above or by check mailed directly to holders at their respective registered addresses or by wire transfer to an account designated by a holder.

If any interest payment date, maturity date or redemption date falls on a day that is not a Business Day, the payment will be made on the next Business Day with the same force and effect as if made on the relevant interest payment date, maturity date or redemption date. No interest will accrue on such payment for the period from and after the applicable interest payment date, maturity date or redemption date. The notes may be transferred or exchanged, and they may be presented for payment, at the office of the Trustee indicated in the indenture, subject to the limitations provided in the indenture, without the payment of any service charge, other than any applicable tax or governmental charge.

The registered holder of a note will be treated as the owner of it for all purposes, and all references in this "Description of the Notes" to "holders" mean holders of record, unless otherwise indicated.

Further Issuances

We may from time to time, without notice or the consent of the holders of the notes, create and issue further notes of either series ranking equally and ratably with the original notes of such series in all respects (or in all respects except for the payment of interest accruing prior to the issue date of such additional notes, the public offering price and the issue date), so that such additional notes of such series (together with any exchange notes issued in respect of any original notes or additional notes) form a single series with the original notes of such series) and have the same terms as to status, redemption or otherwise as the original notes of such series, provided that if the additional notes of such series are not fungible with the original notes of such series, such additional notes shall have a separate CUSIP number.

Optional Redemption

2025 Notes

Except as set forth in the following paragraphs, we may not redeem the 2025 notes prior to January 15, 2020. On and after such date, we may redeem the 2025 notes, in whole or in part, at our option, at the following redemption prices (expressed as percentages of the principal amount thereof), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period (or, in the case of the period commencing January 15, 2020, such 12-month period and thereafter) commencing on January 15 of the years set forth below:

Year	Percentage
2020	106.00%
2021	104.00%
2022	102.00%
2023 and thereafter	100.00%

Prior to January 15, 2020, we will be entitled at our option to redeem the 2025 notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2025 notes to be redeemed plus the Make-Whole Premium as of, and accrued and unpaid interest, if any, to, the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date).

In addition, any time prior to January 15, 2020, we will be entitled at our option on any one or more occasions to redeem up to 35% of the aggregate principal amount of 2025 notes issued under the indenture at a redemption price equal to 108.00% of the principal amount of the 2025 notes redeemed, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date), with an amount of cash not greater than the net cash proceeds of one or more Equity Offerings by the Company; provided that:

- (1) at least 65% of the aggregate principal amount of 2025 notes issued under the indenture (excluding notes held by the Company and the Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 180 days of the date of the closing of such Equity Offering.

Notice of redemption of the 2025 notes must be given to each holder of the 2025 notes not less than 30 nor more than 60 days prior to the redemption date in accordance with the indenture.

2027 Notes

Except as set forth in the following paragraphs, we may not redeem the 2027 notes prior to June 15, 2022. On and after such date, we may redeem the 2027 notes, in whole or in part, at our option, at the following redemption prices (expressed as percentages of the principal amount thereof), plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period (or, in the case of the period commencing June 15, 2025, such 12-month period and thereafter) commencing on June 15 of the years set forth below:

Year	Percentage
2022	104.000%
2023	102.667%
2024	101.333%
2025 and thereafter	100.000%

Prior to June 15, 2022, we will be entitled at our option to redeem the 2027 notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2027 notes to be redeemed plus the Make-Whole Premium as of, and accrued and unpaid interest, if any, to, the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date).

In addition, any time prior to June 15, 2020, we will be entitled at our option on any one or more occasions to redeem up to 35% of the aggregate principal amount of 2027 notes issued under the indenture at a redemption price equal to 108.00% of the principal amount of the 2027 notes redeemed, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders on the relevant record date to receive interest due on the relevant interest payment date), with an amount of cash not greater than the net cash proceeds of one or more Equity Offerings by the Company; provided that:

- (1) at least 65% of the aggregate principal amount of 2027 notes issued under the indenture (excluding notes held by the Company and the Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 180 days of the date of the closing of such Equity Offering.

Notice of redemption of the 2027 notes must be given to each holder of the 2027 notes not less than 30 nor more than 60 days prior to the redemption date in accordance with the indenture.

Notice and Selection

Once a notice of redemption is given in accordance with the indenture, subject to the satisfaction of any conditions set forth therein, notes called for redemption become due and payable on the applicable redemption date at the applicable redemption price. Any notice of redemption will state, among other things, the aggregate principal amount of notes to be redeemed, the redemption date, the redemption price, the CUSIP number and the name and address of the paying agent. Notice of any redemption, including, without limitation, upon an Equity Offering, may, at our discretion, be subject to one or more conditions precedent, including, but not limited to, completion of the related Equity Offering. In addition, if such redemption is subject to satisfaction of one or more conditions precedent, such notice shall state that, in our discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed. In addition, we may provide in such notice that payment of the redemption price and performance of our obligations with respect to such redemption may be performed by another Person.

If less than all of the notes of a series are redeemed at any time, the Trustee will select the notes of such series to be redeemed on a pro rata basis or by lot, in each case, in accordance with the procedures of the DTC, or, if the notes of such series are listed on any securities exchange, by any other method that complies with the requirements of such exchange; provided, however, that no notes with a principal amount of \$2,000 or less will be redeemed in part. Unless we default in payment of the applicable redemption price, interest on the notes to be redeemed will cease to accrue on the applicable redemption date, whether or not such notes are presented for payment.

Certain Definitions Related to the Notes

“Adjusted Treasury Rate” means, with respect to any redemption date applicable to the notes of a series, the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published Federal Reserve Statistical Release H.15 or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System (or, if such release (or any successor release) is not published, any publicly available source of similar market data) and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after January 15, 2020, in the case of the 2025 notes, or June 15, 2022, in the case of the 2027 notes, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month), calculated on the third Business Day immediately preceding the redemption date, plus 50 basis points.

“Business Day” means any day on which the New York Stock Exchange is open for trading and which is not a Legal Holiday.

“Comparable Treasury Issue” means the United States Treasury security selected by the Company as having a maturity comparable to the remaining term of the notes of the applicable series from the redemption date to January 15, 2020, in the case of the 2025 notes, and June 15, 2022, in the case of the 2027 notes, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to January 15, 2020, in the case of the 2025 notes, and June 15, 2022, in the case of the 2027 notes.

“Legal Holiday” is a Saturday, a Sunday or a day on which banks and trust companies in The City of New York are not required by law or executive order to be open.

“Make-Whole Premium” means, at any applicable redemption date, the excess of (i) the present value at such redemption date of (A) the redemption price of such note on January 15, 2020, in the case of the 2025 notes, or June 15, 2022, in the case of the 2027 notes (such redemption price being described in the first paragraph under “—Optional Redemption”) exclusive of any accrued interest plus (B) all required remaining scheduled interest payments due on such note through January 15, 2020, in the case of the 2025 notes, and June 15, 2022, in the case of the 2027 notes (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate, over (ii) the principal amount of such note on such redemption date.

Guarantees

Our payment obligations under the notes and the indenture will be jointly and severally, fully and unconditionally guaranteed by the subsidiary guarantors, subject to the limitations described in the following paragraphs. As of the Issue Date, the subsidiary guarantors include each of our subsidiaries that guarantee our Credit Facility, Term Loan and Second Lien Notes. As of December 31, 2017, our non-guarantor subsidiaries held less than 1% of our consolidated total assets and had no third-party indebtedness, and for the year ended December 31, 2017, had revenues representing less than 1% of our consolidated revenues.

The indenture provides that each Person that becomes a domestic Subsidiary of the Company after the Issue Date and that guarantees any oth

Selected Quarterly Financial Information (unaudited)

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Financial Statement Schedule

Schedule II, Valuation and Qualifying Accounts

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Blue Nile, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Blue Nile, Inc. and its subsidiary at January 2, 2005 and December 31, 2003, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules 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.

/s/ PricewaterhouseCoopers LLP

Seattle, Washington

March 25, 2005

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BLUE NILE, INC.
Consolidated Balance Sheets

	January 2, 2005	December 31, 2003
(In thousands, except par value)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 59,499	\$ 30,383
Restricted cash		400
Marketable securities	41,868	
Accounts receivable	760	843
Inventories	9,914	10,204
Deferred income taxes	8,442	5,300
Prepays and other current assets	1,046	465
 Total current assets	 121,529	 47,595
Property and equipment, net	3,916	3,979
Intangible assets, net	385	
Deferred income taxes	2,475	10,654
Other assets	77	77
 Total assets	 \$ 128,382	 \$ 62,305
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 37,775	\$ 26,288
Accrued liabilities	5,713	4,467
Current portion of deferred rent	203	177
 Total current liabilities	 43,691	 30,932
Deferred rent, less current portion	1,071	1,126
Commitments and contingencies		
Mandatorily redeemable convertible preferred stock, \$0.001 par value; 25,856 shares authorized; no shares and 10,000 shares outstanding at January 2, 2005 and December 31, 2003, respectively; aggregate liquidation preference of \$0 and \$78,664 at January 2, 2005 and December 31, 2003, respectively		57,485
Stockholders' equity (deficit):		
Preferred stock, \$0.001 par value; 5,000 shares authorized, none issued and outstanding as of January 2, 2005; no shares authorized, issued and outstanding as of December 31, 2003		
Common stock, \$0.001 par value; 300,000 shares and 48,000 shares authorized as of January 2, 2005 and December 31, 2003, respectively; 18,478 shares and 5,128 shares issued as of January 2, 2005 and December 31,	18	5

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2003, respectively; 17,728 shares and 4,378 shares outstanding as of January 2, 2005 and December 31, 2003, respectively

Additional paid-in capital	104,684	4,247
Deferred compensation	(929)	(1,352)
Accumulated other comprehensive loss	(2)	
Accumulated deficit	(19,515)	(29,502)
Treasury stock, at cost; 750 shares outstanding at January 2, 2005 and December 31, 2003	(636)	(636)
Total stockholders equity (deficit)	83,620	(27,238)
Total liabilities and stockholders equity (deficit)	\$ 128,382	\$ 62,305

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

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BLUE NILE, INC.
Consolidated Statements of Operations

	Year Ended January 2,	Year Ended December 31,	
	2005	2003	2002
(In thousands, except per share data)			
Net sales	\$ 169,242	\$ 128,894	\$ 72,120
Cost of sales	131,590	99,476	53,967
Gross profit	37,652	29,418	18,153
Operating expenses:			
Selling, general and administrative	22,795	18,207	14,126
Restructuring charges		(87)	400
	22,795	18,120	14,526
Operating income	14,857	11,298	3,627
Other income (expense), net:			
Interest income	709	109	215
Interest expense		(209)	(2,327)
Other income	63	88	112
	772	(12)	(2,000)
Income before income taxes	15,629	11,286	1,627
Income tax expense (benefit)	5,642	(15,700)	
Net income	\$ 9,987	\$ 26,986	\$ 1,627
Basic net income per share	\$ 0.80	\$ 6.98	\$ 0.49
Diluted net income per share	\$ 0.56	\$ 1.65	\$ 0.11

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

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BLUE NILE, INC.
**Consolidated Statements of Changes in Mandatorily Redeemable Convertible Preferred Stock and
Stockholders Equity (Deficit)**

	Mandatorily Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital		Deferred Stock Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity (Deficit)	
	Shares	Amount	Shares	Amount	Capital	Compensation	Deficit	Loss	Shares	Amount	(Deficit)	
(In thousands)												
Balance, December 31, 2001	9,859	\$ 57,215	4,116	\$ 4	\$ 2,540		\$ (58,115)			(748)	\$ (628)	\$ (56,199)
Exercise of warrants			14		4							4
Exercise of common stock options			9		8							8
Net income and comprehensive income							1,627					1,627
Balance, December 31, 2002	9,859	57,215	4,139	4	2,552		(56,488)			(748)	(628)	(54,560)
Exercise of common stock options			989	1	253							254
Repurchase of stock										(2)	(8)	(8)
Conversion of debt to mandatorily redeemable convertible preferred stock	141	270										
Deferred stock compensation on issuance					1,442	(1,442)						

of stock options											
Amortization of deferred stock compensation						90					90
Net income and comprehensive income							26,986				26,986
Balance, December 31, 2003	10,000	57,485	5,128	5	4,247	(1,352)	(29,502)	(750)	(636)		(27,238)
Net income							9,987				9,987
Other comprehensive income (loss):											
Unrealized loss on marketable securities, net of tax								(2)			(2)
Total comprehensive income											9,985
Sale of common stock, net of offering expenses			2,301	2	42,514						42,516
Conversion of mandatorily redeemable convertible preferred stock to common stock	(10,000)	(57,485)	10,920	11	57,474						57,485
Deferred stock compensation on issuance of stock options						228	(228)				
Tax effect of stock option exercises						352					352

Amortization of deferred stock compensation					355					355
Reversal of deferred compensation relating to cancelled options				(296)	296					
Exercise of common stock options and warrants	128			145						145
Issuance of common stock to directors	1			20						20
Balance, January 2, 2005	\$	18,478	\$ 18	\$ 104,684	\$ (929)	\$ (19,515)	\$ (2)	(750)	\$ (636)	\$ 83,620

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

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BLUE NILE, INC.
Consolidated Statements of Cash Flows

	Year Ended January 2,	Year Ended December 31,	
	2005	2003	2002
(In thousands)			
Operating activities:			
Net income	\$ 9,987	\$ 26,986	\$ 1,627
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,510	1,293	1,757
(Gain) loss on asset retirements	(5)	14	
Stock-based compensation	375	90	
Warrant-based interest expense		87	597
Restructuring charges		(87)	400
Deferred income taxes	5,388	(15,700)	
Changes in assets and liabilities:			
Receivables, net	83	(441)	(331)
Inventories	290	(5,023)	1,438
Prepaid expenses and other assets	(581)	(235)	(82)
Accounts payable	11,487	10,497	10,538
Accrued liabilities	1,246	1,044	777
Deferred rent	(29)	1,291	9
Net cash provided by operating activities	29,751	19,816	16,730
Investing activities:			
Purchases of property and equipment	(1,417)	(3,506)	(991)
Purchases of intangible assets	(416)		
Proceeds from sales of property and equipment	7	3	
Purchases of marketable securities	(82,870)		
Proceeds from the sale of marketable securities	41,000		(50)
Transfers of restricted cash	400		
Net cash used in investing activities	(43,296)	(3,503)	(1,041)
Financing activities:			
Proceeds from the sale of common stock, net of issuance costs	42,516		
Repurchase of restricted and common stock		(8)	
Payments on subordinated notes payable		(6,638)	(8,362)
Payments on capital lease obligations		(995)	(790)
Payments on note payable to related party		(1,140)	(250)
Proceeds from warrant and stock option exercises	145	254	12
Net cash provided by (used in) financing activities	42,661	(8,527)	(9,390)
Net increase in cash and cash equivalents	29,116	7,786	6,299
Cash and cash equivalents, beginning of period	30,383	22,597	16,298

Cash and cash equivalents, end of period	\$	59,499	\$	30,383	\$	22,597
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Supplemental disclosure of cash flow information:

Cash paid for interest	\$		\$	154	\$	1,682
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Cash paid for income taxes	\$	235	\$		\$	
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Non-cash investing and financing activities:

Conversion of related party note payable to Series E mandatorily redeemable convertible preferred stock	\$		\$	270	\$	
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The accompanying notes are an integral part of these consolidated financial statements

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**BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1. Description of the Company and Summary of Significant Accounting Policies

The Company

Blue Nile, Inc. (the Company) is a leading online retailer of high quality diamonds and fine jewelry in the United States. In addition to sales of diamonds, fine jewelry and watches, the Company provides guidance and support to enable customers to more effectively learn about and purchase diamonds as well as classically styled fine jewelry. The Company, a Delaware corporation, based in Seattle, Washington, was formed in March 1999. The Company maintains its primary web site at www.bluenile.com. The Company also operates the www.bluenile.co.uk and www.bluenile.ca web sites.

Change in Fiscal Year

On January 1, 2004, the Company's fiscal year-end changed from December 31 to the Sunday closest to December 31. Each fiscal year consists of four 13-week quarters, with an extra week added onto the fourth quarter every five to six years. There were the same number of days of operations in 2003 as in 2004.

Reclassifications

Certain reclassifications of prior period balances have been made for consistent presentation with the current period. These reclassifications had no impact on net income or stockholders' equity (deficit) as previously reported.

Basis of Presentation

The consolidated financial statements include the balances of Blue Nile, Inc. and its subsidiary for the entire fiscal year. All significant intercompany transactions and balances are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include the allowance for sales returns, the reserve for estimated fraud losses and the deferred tax valuation reserve. Actual results could differ materially from those estimates.

Concentration of Risk

The Company maintains its cash and cash equivalents and marketable securities in accounts with two major financial institutions in the United States of America, in the form of demand deposits, certificates of deposit, money market accounts and U.S. government securities. Deposits in these banks may exceed the amounts of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company's accounts receivable are derived from credit card purchases from customers and are typically settled within one to two business days.

The Company's ability to acquire diamonds and fine jewelry is dependent on its relationships with various suppliers from whom it purchases diamonds and fine jewelry. The Company has reached agreements with certain suppliers to provide access to their inventories of diamonds for its customers, but the terms of these agreements are limited and do not govern the purchase of diamonds for its inventory. The Company's inability to maintain these and other future diamond and fine jewelry supply relationships

Table of Contents**BLUE NILE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

on commercially reasonable terms would cause its business to suffer and its revenues to decline. Purchase concentration by major supply vendor is as follows:

	2004	2003	2002
	Payments	Payments	Payments
Vendor A	10%	15%	21%
Vendor B	9%	12%	15%
Vendor C	6%	9%	9%

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash at December 31, 2003 consists primarily of cash pledged as collateral to a credit card processing bank. There were no restrictions on cash at January 2, 2005.

Marketable Securities

The Company's marketable securities are classified as available-for-sale as defined by Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). At January 2, 2005, marketable securities consisted of U.S. government and agencies securities maturing within one year. The securities are carried at fair value, with the unrealized gains and losses included in accumulated other comprehensive income (loss). Realized gains or losses on the sale of marketable securities are identified on a specific identification basis and are reflected as a component of interest income or expense. The cost, fair value and unrealized gains and losses of marketable securities as of and for the fiscal year ended January 2, 2005 are as follows (in thousands):

	Cost	Unrealized Gain	Unrealized Loss	Fair-Value
U.S. government and agencies securities	\$ 41,870	\$	\$ (2)	\$ 41,868

There were no realized gains or losses on sales of marketable securities in 2004, 2003 or 2002.

Inventories

The Company's diamond, fine jewelry and watch inventories are classified at the lower of cost or market, using the specific identification method for diamonds and weighted average cost method for fine jewelry and watches. The Company also lists loose diamonds on its web site that are not included in inventory until the Company receives a customer order for those diamonds. Upon receipt of a customer order, the Company purchases a specific diamond and records it in inventory until it is delivered to the customer, at which time the revenue from the sale is recognized and inventory is relieved.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets. The cost and related accumulated depreciation of assets sold or otherwise disposed of is

Table of Contents**BLUE NILE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

removed from the accounts and the related gain or loss is reported in the statement of operations. Estimated useful lives by major asset category are as follows:

Asset	Life (In Years)
Computers and equipment	3
Software	2-3
Leasehold improvements	Shorter of lease term or asset life
Furniture and fixtures	7

Capitalized Software

The Company capitalizes internally developed software costs and web site development costs in accordance with the provisions of Statement of Position 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1) and Emerging Issues Task Force No. 00-2, Accounting for Web site Development Costs (EITF 00-2) Capitalized costs are amortized on a straight-line basis over the estimated useful life of the software once it is available for use.

Impairment of Long-Lived Assets

The Company reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the estimated future cash inflows attributable to the assets, less estimated future cash outflows, are less than the carrying amount, an impairment loss would be recognized.

Intangible Assets

Intangible assets are recorded at cost and consist primarily of the costs incurred to acquire licenses and other similar agreements with finite lives, which were acquired in October 2004. Amortization is calculated on a straight-line basis over the estimated useful lives of the related assets, which range from 10 years to 17 years. The carrying amount of these assets was \$385,000, net of accumulated amortization of \$31,000 at January 2, 2005. Amortization expense related to intangible assets was \$31,000 in 2004. Amortization expense is estimated to be \$33,000 in each fiscal year for 2005 through 2009.

Fair Value of Financial Instruments

The carrying amounts for the Company's cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities.

Treasury Stock

Treasury stock is recorded at cost and primarily consists of the repurchase of restricted common stock issued to founders and unvested stock issued to employees in connection with early exercises of stock options.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the tax rates that will be in effect when the differences are expected to reverse. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is considered to be more likely than not.

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BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition

Net sales consist of products sold via the Internet and shipping revenue, net of estimated returns and promotional discounts. The Company recognizes revenues when all of the following have occurred: persuasive evidence of an agreement with the customer exists, products are shipped and the customer takes delivery and assumes the risk of loss; the selling price is fixed or determinable and collectibility of the selling price is reasonably assured. The Company evaluates the criteria outlined in EITF 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned.

The Company requires payment at the point of sale. Amounts received prior to delivery of goods to customers are recorded as deferred revenue. The Company offers a return policy of generally 30 days and provides an allowance for sales returns during the period in which the sales are made. At January 2, 2005 and December 31, 2003, the reserve for sales returns was \$988,000 and \$769,000, respectively, and was recorded as an accrued liability. Sales revenues and cost of sales reported in the Statement of Operations are reduced to reflect estimated returns.

The Company generally does not extend credit to customers, except through third party credit cards. The majority of sales are through credit cards, and accounts receivable are composed primarily of amounts due from financial institutions related to credit card sales. The Company does not maintain an allowance for doubtful accounts because payment is typically received one to two business days after the sale is complete.

The Company has procedures in place to detect and prevent credit card fraud since the Company has exposure to losses from fraudulent charges. The Company records a reserve for fraud losses based on our historical rate of such losses. This reserve is recorded as an accrued liability and amounted to \$152,000 at January 2, 2005 and \$188,000 at December 31, 2003.

Cost of Sales

Cost of sales consists of the cost of merchandise sold to customers, inbound and outbound shipping costs, insurance on shipments and jewelry assembly costs.

Selling, General and Administrative Expense

Selling, general and administrative expenses consist primarily of marketing and sales expenses, fulfillment (handling) costs and customer service center costs. Credit card fees, insurance, personnel costs and other corporate administrative expenses are also included in selling, general and administrative expenses.

Fulfillment (handling) costs include costs incurred in operating and staffing the fulfillment center, including costs attributable to: receiving, inspecting and warehousing inventories and picking, packaging and preparing customers orders for shipment. Fulfillment (handling) costs in 2004, 2003 and 2002 were approximately \$1.6 million, \$1.5 million and \$1.2 million, respectively.

Advertising

Advertising production costs are expensed as incurred. Costs of advertising associated with television, radio, print and other media are expensed when such services are used. Costs associated with web portal advertising contracts are amortized over the period such advertising is expected to be used. Advertising expense for the years ended January 2, 2005 and December 31, 2003 and 2002 was approximately \$6.5 million, \$4.5 million and \$3.2 million, respectively.

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BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25 (FIN 44), which is described more fully in Note 7. The Company has elected to apply the disclosure-only provisions of SFAS No. 123, Accounting for Stock Based Compensation (SFAS 123). Had compensation cost for the Company's stock options been determined based on the fair value of the options at the date of grant, the Company's pro forma net income would have been as shown below (in thousands, except per share data).

	Year Ended January 2,	Year Ended December 31,	
	2004	2003	2002
Net income, as reported	\$ 9,987	\$ 26,986	\$ 1,627
Add: Stock-based compensation expense, as reported	355	90	
Deduct: Stock-based employee compensation expense determined under fair-value-based method, net of tax	(1,086)	(352)	(279)
Pro forma net income	\$ 9,256	\$ 26,724	\$ 1,348
Income per share:			
Basic as reported	\$ 0.80	\$ 6.98	\$ 0.49
Basic pro forma	\$ 0.74	\$ 6.91	\$ 0.40
Diluted as reported	\$ 0.56	\$ 1.65	\$ 0.11
Diluted pro forma	\$ 0.52	\$ 1.63	\$ 0.10

See Note 7 for the assumptions used to compute the pro forma amounts.

Segments

The Company has one operating segment, online retail jewelry. No foreign country or geographic area accounted for more than 10% of net sales in any of the periods presented, and the Company does not have any long-lived assets located in foreign countries.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R (Revised 2004), Share-Based Payment (SFAS 123R). This statement addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for the company's equity instruments or liabilities that are based on the fair value of the company's equity securities or may be settled by the issuance of these securities. SFAS 123R eliminates the ability to account for share-based compensation using APB 25 and generally requires that such transactions be accounted for using a fair value method. The provisions of this statement are effective for financial statements issued for fiscal periods beginning after June 15, 2005 and will become effective for the Company beginning with the third quarter of the 2005 fiscal year. The stock-based compensation the Company will recognize after the adoption of SFAS 123R will

be affected by the number and type of stock-based awards granted in the future and the pricing model and related assumptions the Company decides to use to estimate the fair values of options. The Company is currently evaluating which pricing model it will use to estimate the value of its options and which transition method it will use to implement SFAS 123R.

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BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Initial Public Offering

On May 19, 2004, the Company's registration statement on Form S-1 was declared effective for its initial public offering, pursuant to which the Company sold 2,300,910 shares of common stock at \$20.50 per share. The Company's common stock commenced trading on May 20, 2004. The offering closed on May 25, 2004, and, as a result, the Company received net proceeds of approximately \$43.9 million (after underwriters' discounts of \$3.3 million). The Company incurred additional related expenses of approximately \$1.4 million.

On April 30, 2004, the Company effected a 1 for 2.5 reverse split of its common stock and mandatorily redeemable convertible preferred stock. All shares and per share amounts and any other references to shares included in the accompanying unaudited consolidated financial statements have been adjusted to reflect this split on a retroactive basis.

Simultaneous with its initial public offering, the Company's 10.0 million outstanding shares of mandatorily redeemable convertible preferred stock were automatically converted into approximately 10.9 million shares of common stock.

Note 3. Inventories

Inventories consists of the following (in thousands):

	January 2, 2005	December 31, 2003
Loose diamonds	\$ 293	\$ 124
Fine jewelry, watches and other	9,621	10,080
	\$ 9,914	\$ 10,204

Note 4. Property and Equipment

Property and equipment consists of the following (in thousands):

	January 2, 2005	December 31, 2003
Computers and equipment	\$ 3,777	\$ 3,204
Software and website development	4,409	3,892
Leasehold improvements	2,545	2,310
Furniture and Fixtures	567	537
	11,298	9,943
Less: accumulated depreciation	(7,382)	(5,964)
	\$ 3,916	\$ 3,979

Capitalized software costs include external direct costs and internal direct labor and related employee benefits costs of developing software for internal use. Amortization begins in the period in which the software is ready for its intended use. The Company had \$837,000 and \$815,000 of unamortized computer software and web site development costs at January 2, 2005 and December 31, 2003, respectively. Total depreciation expense was \$1.5 million,

\$1.3 million and \$1.8 million in 2004, 2003 and 2002, respectively. Of this amount, depreciation and amortization of capitalized software development costs was \$476,000, \$331,000 and \$490,000 in 2004, 2003 and 2002, respectively.

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BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Commitments and Contingencies*Leases*

The Company leases its office facilities and fulfillment center under noncancelable operating lease agreements that expire through 2011. Lease incentives of \$1.3 million for reimbursement of certain leasehold improvement expenditures are recorded as deferred rent and are being amortized against lease payments over the life of the lease. Future minimum lease payments as of January 2, 2005 are as follows (in thousands):

	Operating Leases
2005	\$ 393
2006	383
2007	291
2008	291
2009	291
Thereafter	397
Total minimum lease payments	\$ 2,046

Rent expense, which includes certain common area maintenance costs was approximately \$347,000, \$406,000 and \$501,000, for the years ended January 2, 2005 and December 31, 2003 and 2002, respectively.

Litigation

The Company is party to various legal proceedings arising in the ordinary course of its business. It is not currently a party to any legal proceedings that management believes would have a material adverse effect on the consolidated financial position or results of operations of the Company.

Note 6. Preferred Stock

During 2004, the Company authorized 5,000,000 shares of undesignated preferred stock. Shares of preferred stock may be issued from time to time in one or more series, with designations, preferences, and limitations established by the Company's board of directors.

At December 31, 2003 the Company had authorized 25,855,991 shares of mandatorily redeemable convertible preferred stock designated as the series set forth in the table below. All such series of

Table of Contents**BLUE NILE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

mandatorily redeemable convertible preferred stock were at \$0.001 par value. Amounts at December 31, 2003 were as follows (in thousands):

	December 31, 2003				
	Authorized Shares	Shares Outstanding	Shares Issuable upon Conversion to Common	Amount	Liquidation Preference
Series A mandatorily redeemable convertible preferred stock	6,667	2,667	2,770	\$ 5,989	\$ 6,000
Series B mandatorily redeemable convertible preferred stock	3,353	1,326	1,488	4,508	4,510
Series C mandatorily redeemable convertible preferred stock	3,906	1,560	1,996	26,023	26,045
Series D mandatorily redeemable convertible preferred stock	1,930	772	991	14,050	14,050
Series E mandatorily redeemable convertible preferred stock	10,000	3,675	3,675	6,915	28,059
	25,856	10,000	10,920	\$ 57,485	\$ 78,664

As discussed in Note 2, on May 19, 2004, the Company's registration statement on Form S-1 was declared effective for its initial public offering. Upon the closing of the Company's initial public offering on May 25, 2004, the 10.0 million shares of Series A through E mandatorily redeemable convertible preferred stock were automatically converted into approximately 10.9 million shares of common stock.

The following table summarizes information about mandatorily redeemable convertible preferred stock for the years ended January 2, 2005 and December 31, 2003 and 2002 (in thousands):

	Series A		Series B		Series C		Series D		Series E	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance, December 31, 2001	2,667	\$ 5,989	1,326	\$ 4,508	1,560	\$ 26,023	772	\$ 14,050	3,534	\$ 6,645
Balance, December 31,	2,667	5,989	1,326	4,508	1,560	26,023	772	14,050	3,534	6,645

2002											
Conversion of debt to mandatorily redeemable convertible preferred stock									141	270	
Balance December 31, 2003	2,667	5,989	1,326	4,508	1,560	26,023	772	14,050	3,675	6,915	
Conversion of mandatorily redeemable convertible preferred stock to common stock	(2,667)	(5,989)	(1,326)	(4,508)	(1,560)	(26,023)	(772)	(14,050)	(3,675)	(6,915)	
Balance January 2, 2005	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	

Preferred Stock Warrants

In connection with certain capital leases entered into during 1999, the Company issued warrants to purchase 14,706 shares of Series B mandatorily redeemable convertible preferred stock at \$3.40 per share and warrants to purchase 2,994 shares of Series C mandatorily redeemable convertible preferred stock at \$16.70 per share (Series C warrants) to a financial institution. These warrants converted into warrants to purchase an aggregate of 20,234 shares of common stock upon the closing of the Company's initial public offering. These warrants were exercised on October 15, 2004.

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BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Stock-Based Compensation***Stock Option Plan***

The Company has an equity incentive plan that was adopted in 1999 (the 1999 Plan). The 1999 Plan provides for the grant of incentive stock options, non-statutory stock options, stock bonuses and restricted stock awards, which may be granted to employees, including officers, non-employee directors and consultants. An aggregate of 3,310,400 shares of common stock are reserved for issuance under the 1999 Plan. Options granted under the 1999 Plan generally provide for 25% vesting on the first anniversary from the date of grant with the remainder vesting monthly over three years and expire 10 years from the date of grant. Options granted under the 1999 Plan are generally granted at fair value on the date of the grant. For options granted prior to February 2001, the options included an early exercise provision that allowed early exercise of unvested stock options subject to a repurchase right at original cost on unvested shares. As of May 19, 2004, the effective date of the Company's initial public offering, no additional awards were granted under the 1999 Plan.

In April 2004, the Company adopted an equity incentive plan (the 2004 Plan). The 2004 Plan provides for the grant of non-statutory stock options, restricted stock awards, stock appreciation rights, restricted stock units and other forms of equity compensation, which may be granted to employees, including officers, non-employee directors and consultants. As of January 2, 2005, the Company reserved 3,446,365 shares of common stock for issuance under the 2004 Plan, which amount will be increased annually on January 1st of each year, up to and including 2014, by five percent of the number of shares of common stock outstanding on such date unless a lower number of shares is approved by the board of directors.

Options granted under the 2004 Plan generally provide for 25% vesting on the first anniversary from the date of grant with the remainder vesting monthly over three years, and expire 10 years from the date of grant. Options granted under the 2004 Plan are generally granted at fair value on the date of the grant.

In April 2004, the Company adopted the 2004 Non-Employee Directors' Stock Option Plan (the Directors' Plan). The Directors' Plan provides for the automatic grant of non-statutory stock options to purchase shares of common stock to non-employee directors. As of January 2, 2005, common stock reserved for the plan is 400,000 shares, which amount will be increased annually on January 1st of each year, up to and including 2014, by the number of shares of common stock subject to options granted during the prior calendar year unless a lower number of shares is approved by the board of directors. There were no options granted under this plan in 2004.

In April 2004, the Company adopted the 2004 Employee Stock Purchase Plan (the Purchase Plan). As of January 2, 2005, the Purchase Plan authorized the issuance of 1,000,000 shares of common stock, which amount will be increased on January 1st of each year following the year in which the Company commences the first offering under the plan for 20 years by the lesser of 320,000 shares or one and one half percent of the number of shares of common stock outstanding on each such date unless a lower number of shares is approved by the board of directors. The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. As of January 2, 2005, no shares of common stock have been purchased under the Purchase Plan.

As mentioned in Note 1, the Company accounts for stock-based employee compensation arrangements in accordance with APB 25 and FIN 44. Under APB 25, compensation expense is recognized for the difference between the fair value of the Company's stock on the date of grant and the exercise price. During 2004 and 2003, the Company issued options to certain employees under the 1999 Plan with exercise prices below the deemed fair market value of the Company's common stock at the date of grant. In accordance with the requirements of APB 25, the Company has recorded deferred stock-based compensation for the difference between the exercise price of the stock option and the deemed fair market

Table of Contents**BLUE NILE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

value of the Company's stock at the grant date. In 2004 and 2003, the Company recorded deferred stock-based compensation of \$228,000 and \$1.4 million, respectively, related to these options. This amount is being amortized over the vesting period of the awards, generally four years. During 2004 and 2003, the Company recorded compensation expense of \$355,000 and \$90,000, respectively, related to the amortization of deferred compensation.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS 123 and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services (EITF 96-18). EITF 96-18 requires such equity instruments be recorded at their fair value on the measurement date.

In August 2001, the Company offered a voluntary stock option cancellation and re-grant program to its employees. The plan allowed employees, at their election, to cancel a portion or all of their unexercised stock options effective August 15, 2001, provided that, should an employee participate, any option granted to that employee during the period February 15, 2001 to August 15, 2001 would be automatically canceled and the Company would grant no options to the participants from August 15, 2001 through February 18, 2002. In exchange, in February 2002, the employee would be granted new options at the then fair value of the underlying common stock to purchase a number of shares equal to the number of shares underlying the canceled options provided they were still employed by the Company at that time. Options to purchase approximately 1,061,600 shares of the Company's common stock were canceled, and new options to purchase approximately 961,000 shares of the Company's common stock were granted.

A summary of activity related to the above described plans is as follows (in thousands, except exercise price):

	Year Ended January 2, 2005		Year Ended December 31, 2003		2002	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Balance, beginning of year	1,403	\$ 2.47	2,078	\$ 0.27	207	\$ 0.48
Granted	712	27.10	379	8.48	1,906	0.25
Exercised	(103)	0.92	(989)	0.26	(9)	0.87
Canceled	(95)	11.31	(65)	0.91	(26)	0.30
Balance, end of year	1,917	\$ 11.26	1,403	\$ 2.47	2,078	\$ 0.27
Exercisable at end of year	918	\$ 1.81	650	\$ 0.30	1,166	\$ 0.28

Table of Contents**BLUE NILE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes information about stock options outstanding at January 2, 2005:

Range of Exercise Price	Options (In thousands)	Outstanding		Exercisable	
		Remaining Contractual Life	Weighted Average Exercise Price	Options (In thousands)	Weighted Average Exercise Price
\$ 0.25	743	7	\$ 0.25	642	\$ 0.25
\$ 0.28-\$ 8.75	505	8	5.64	245	3.95
\$ 9.38-\$29.40	153	9	19.20	31	17.41
\$30.00	487	10	30.00		
\$32.24-\$34.29	29	10	34.12		
	1,917	8	11.26	918	1.81

The weighted-average fair value at grant date of options granted during 2004, 2003 and 2002 was \$14.06, \$5.10 and \$0.25, respectively. There were 55,700 options granted in 2004 with exercise prices less than the market value on the date of grant. The weighted-average fair value at the date of grant for these options was \$12.69. The remaining options granted in 2004 had exercise prices equal to the market value on the date of grant and had a weighted-average fair value at the date of grant of \$28.32. The exercise price of all options granted in 2003 was less than the fair value of the stock on the grant date. The exercise price of all options granted in 2002 was equal to the fair value on the grant date. The fair value for each option grant is estimated on the date of grant using the fair value method for grants after May 19, 2004 and the minimum value method for grants prior to May 20, 2004 and the following assumptions:

	Year Ended January 2,	Year Ended December 31,	
	2005	2003	2002
Expected dividend rate	0%	0%	0%
Expected volatility	0% - 79%	0%	0%
Expected lives (years)	4-5	5	5
Risk-free interest rate	2.8% - 3.7%	2.6% - 3.6%	2.9% - 4.8%

See Note 1 for the pro forma effect of accounting for stock options using the fair value method.

Note 8. Common Stock
Common Stock Warrants

At December 31, 2003, the Company had warrants outstanding to purchase a total of 8,000 shares of common stock at an exercise price of \$6.25 per share. In March 2004 all 8,000 warrants were exercised.

Note 9. Employee Benefit Plan

The Company has a defined contribution plan pursuant to Section 401(k) of the Internal Revenue Code covering all eligible officers and employees. The Company provides a matching contribution of \$0.50 for every \$1.00 contributed by the employee up to 2% of each employee's salary. Such contributions were approximately \$108,000, \$97,000 and \$67,000 for the years ended January 2, 2005, December 31, 2003 and 2002, respectively.

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BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10. Income Taxes

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended January 2, 2005	Year Ended December 31, 2003	2002
Current income tax expense	\$ 605	\$ 254	\$
Deferred income tax benefit:			
Utilization of net operating losses	5,162	4,438	
Adjustment to beginning of year valuation allowance		(19,702)	
Other	(125)	(690)	
Total income tax expense (benefit)	\$ 5,642	\$ (15,700)	\$

A reconciliation of the statutory Federal income tax rate to the effective tax rate is as follows:

	Year Ended January 2, 2005	Year Ended December 31, 2003	2002
Statutory federal income tax rate	35.0%	35.0%	35.0%
Change in valuation allowance		(174.4)	(35.2)
Other	1.1	0.3	0.2
Effective tax rate	36.1%	(139.1)%	%

Deferred income taxes reflect the net tax effect of temporary differences between amounts recorded for financial reporting purposes and amounts used for tax purposes. The major components of deferred tax assets are as follows (in thousands):

	January 2, 2005	December 31, 2003
Deferred tax assets:		
Current:		
Net operating loss carryforwards	\$ 7,945	\$ 4,500
Deferred rent		456
Reserves and allowances	422	344
Other	75	

Noncurrent:			
Net operating loss carryforwards		1,146	8,682
Excess of book over tax depreciation and amortization		792	1,363
Tax credit carryforwards		495	254
Other		42	355
Gross deferred tax assets		10,917	15,954
Valuation allowance			
Net deferred tax assets	\$	10,917	\$ 15,954

During 2003, the Company recorded a reduction in the valuation allowance of \$19.7 million, primarily due to the Company realizing net income in 2002 and 2003. The Company believes that it is more likely

Table of Contents**BLUE NILE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

than not that it will generate sufficient taxable income to utilize its deferred tax assets, including net operating loss carryforwards, within any applicable carryover periods.

At January 2, 2005 the Company had net operating loss carryforwards for federal income tax purposes of approximately \$26.0 million that expire between 2019 and 2021. Under the Tax Reform Act of 1986, the amounts of and benefits from net operating losses may be limited in certain circumstances.

Note 11. Income Per Share

Basic net income per share is based on the weighted average number of common shares outstanding, excluding unvested common shares issued to the Company's founders, and employees upon early exercise of options, which are subject to repurchase by the Company. Diluted net income per share is based on the weighted average number of common shares and equivalents outstanding. Common share equivalents included in the computation represent unvested common shares issued to founders, and common shares issued upon early exercise of options which are subject to repurchase rights, shares issuable upon assumed exercise of outstanding stock options, warrants and mandatorily redeemable convertible preferred stock except when the effect of their inclusion would be antidilutive.

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data):

	Year Ended January 2, 2005	Year Ended December 31, 2003	2002
Net income	\$ 9,987	\$ 26,986	\$ 1,627
Weighted average common shares outstanding	12,450	3,868	3,336
Basic net income per share	\$ 0.80	\$ 6.98	\$ 0.49
Dilutive effect of restricted stock issued to founders			37
Dilutive effect of options early exercised with repurchase rights		2	8
Dilutive effect of stock options and warrants	1,132	1,608	
Dilutive effect of convertible preferred stock	4,303	10,885	10,779
Common stock and common stock equivalents	17,885	16,363	14,160
Diluted net income per share	\$ 0.56	\$ 1.65	\$ 0.11

The following is a summary of the securities outstanding during the respective periods that have been excluded from the calculations because the effect on net income per share would have been antidilutive (in thousands):

	Year Ended January 2, 2005	Year Ended December 31, 2003	2002
Stock options	230	86	694

Preferred stock warrants	3	147
Common stock warrants		10
	230	89
		851

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BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Restructuring Costs

In 2001, the Company recorded a restructuring charge of \$1,017,000 related to the loss on facilities the Company no longer occupied and the write-off of leasehold improvements at these facilities. In 2002, the Company recorded an additional restructuring charge of \$400,000 reflecting a decrease in estimated sublease income at one of these facilities. During 2003, the Company negotiated the termination of one the leases and reversed \$87,000 of the restructuring charge previously recorded. A summary of activity related to the restructuring charge for the years ended January 2, 2005 and December 31, 2003 and 2002 is as follows (in thousands):

	Lease Obligations
Restructuring accrual at December 31, 2001	\$ 587
Changes in estimates	400
Cash paid	(395)
Restructuring accrual at December 31, 2002	592
Changes in estimates	(87)
Cash paid	(472)
Restructuring accrual at December 31, 2003	33
Cash paid	(33)
Restructuring accrual at January 2, 2005	\$

Note 13. Subsequent Events

On February 8, 2005, the board of directors announced the authorization for the Company to repurchase up to \$30 million of the Company's common stock during the next 12 months. The shares may be repurchased from time to time in open market transactions. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. Repurchases may also be made under a Rule 10b5-1 plan, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws.

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BLUE NILE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. Selected Quarterly Financial Information (unaudited)

Summarized quarterly financial information for fiscal years 2004 and 2003 is as follows (in thousands, except per share data):

	Q1	Q2	Q3	Q4
2004 quarter:				
Net sales	\$ 35,784	\$ 35,022	\$ 33,888	\$ 64,548
Gross profit	8,212	7,927	7,369	14,144
Net income	1,904	1,864	1,656	4,563
Basic net income per share	0.43	0.18	0.09	0.26
Diluted net income per share	\$ 0.12	\$ 0.11	\$ 0.09	\$ 0.24

	Q1	Q2	Q3	Q4
2003 quarter:				
Net sales	\$ 24,628	\$ 27,254	\$ 27,457	\$ 49,555
Gross profit	6,153	6,107	6,071	11,087
Net income	1,691	2,243	2,188	20,864(A)
Basic net income per share	0.50	0.65	0.51	4.80
Diluted net income per share	\$ 0.10	\$ 0.14	\$ 0.13	\$ 1.27

(A) Net income for the fourth quarter of 2003 includes a \$15.7 million tax benefit from the realization of deferred tax assets related primarily to net operating loss carryforwards.

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BLUE NILE, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Revenue, Costs or Expenses	Deductions(A)	Balances at End of Period
Reserve deducted from asset to which it applies:				
Year ended January 2, 2005				
Reserve for deferred income tax assets	\$	\$	\$	\$
Year ended December 31, 2003				
Reserve for deferred income tax assets	\$ 19,702	\$	\$ (19,702)	\$
Year ended December 31, 2002				
Reserve for deferred income tax assets	\$ 20,276	\$	\$ (574)	\$ 19,702
Reserve deducted from asset to which it applies:				
Year ended January 2, 2005				
Reserve for sales returns	\$ 769	\$ 15,422	\$ (15,203)	\$ 988
Reserve for fraud	\$ 188	\$ 8	\$ (44)	\$ 152
Year ended December 31, 2003				
Reserve for sales returns	\$ 601	\$ 11,714	\$ (11,546)	\$ 769
Reserve for fraud	\$ 113	\$ 88	\$ (13)	\$ 188
Year ended December 31, 2002				
Reserve for sales returns	\$ 261	\$ 7,151	\$ (6,811)	\$ 601
Reserve for fraud	\$ 72	\$ 61	\$ (20)	\$ 113

(A) Adjustments to reduce the deferred tax valuation allowance were credited to the Company's consolidated statements of operations. Deductions for sales returns and fraud consist of actual credit card chargebacks and sales returns in each period.

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

None.

Item 9A. *Controls and Procedures*

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our certifying officers), of the effectiveness of the design and operation of our disclosure controls and procedures. Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed by us in our periodic reports filed with the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and SEC reports. Based on their evaluation, our certifying officers concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

We believe that a controls system, no matter how well designed and operated, is based in part upon certain assumptions about the likelihood of future events, and therefore can only provide, reasonable, not absolute, assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There were no changes in our internal control over financial reporting during the quarter ended January 2, 2005, that our certifying officers concluded materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

At the end of the fiscal year 2005, Section 404 of the Sarbanes-Oxley Act will require the Company's management to provide an assessment of the effectiveness of the Company's internal control over financial reporting, and the Company's independent registered public accounting firm will be required to audit management's assessment. The Company is in the process of performing the system and process documentation, evaluation and testing required for management to make this assessment and for its independent auditors to provide its attestation report. The Company has not completed this process or its assessment, and this process will require significant amounts of management time and resources. In the course of evaluation and testing, management may identify deficiencies that will need to be addressed and remediated.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement with respect to the Company's 2005 Annual Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

Item 11. *Executive Compensation*

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement with respect to the Company's 2005 Annual Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

Table of Contents**Item 12. Security Ownership of Certain Beneficial Owners and Management**

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement with respect to the Company's 2005 Annual Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement with respect to the Company's 2005 Annual Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement with respect to the Company's 2005 Annual Meeting of Stockholders. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

Index to Consolidated Financial Statements

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

	Page
1. Financial Statements:	
Report of Independent Registered Public Accounting Firm	30
Consolidated Balance Sheets, as of January 2, 2005 and December 31, 2003	31
Consolidated Statements of Operations, for the fiscal years ended January 2, 2005, December 31, 2003 and December 31, 2002	32
Consolidated Statements of Changes in Mandatorily Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit), for the fiscal years ended January 2, 2005, December 31, 2003 and December 31, 2002	33
Consolidated Statements of Cash Flows, for the fiscal years ended January 2, 2005, December 31, 2003 and December 31, 2002	34
Notes to Consolidated Financial Statements	35
2. Financial Statement Schedules:	
Schedule II, Valuation of Qualifying Accounts	50
All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto	
3. Exhibits	

The exhibits listed in the Index to Exhibits, which appears immediately following the signature page and is incorporated herein by reference, are filed as part of this Annual Report on Form 10-K.

Table of Contents**SIGNATURES**

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

Blue Nile, Inc.
(Registrant)
By /s/ Diane M. Irvine

Diane M. Irvine
Chief Financial Officer

March 24, 2005

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

By	/s/ Mark C. Vadon Mark C. Vadon	President, Chief Executive Officer and Director (<i>Principal Executive Officer</i>)	March 24, 2005
By	/s/ Diane M. Irvine Diane M. Irvine	Chief Financial Officer (<i>Principal Financial and Accounting Officer</i>)	March 24, 2005
By	/s/ Augustus O. Tai Augustus O. Tai	Director	March 24, 2005
By	/s/ Brian P. McAndrews Brian P. McAndrews	Director	March 24, 2005
By	/s/ Joanna A. Strober Joanna A. Strober	Director	March 24, 2005
By	/s/ Joseph Jimenez Joseph Jimenez	Director	March 24, 2005
By	/s/ Mary Alice Taylor Mary Alice Taylor	Director	March 24, 2005
By	/s/ W. Eric Carlborg W. Eric Carlborg	Director	March 24, 2005

Table of Contents**EXHIBIT INDEX**

The following exhibits are filed as part of this Annual Report on Form 10-K or are incorporated herein by reference. Where an exhibit is incorporated by reference, the number in parentheses indicates the document to which cross-reference is made. See the end of this exhibit index for a listing of cross-reference documents.

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of Blue Nile, Inc.
3.2(2)	Amended and Restated Bylaws of Blue Nile, Inc.
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2(3)	Specimen Stock Certificate.
4.3(2)	Amended and Restated Investor Rights Agreement dated June 29, 2001 by and between Blue Nile, Inc. and certain holders of Blue Nile, Inc.'s preferred stock.
10.1.1(2)*	Blue Nile, Inc. Amended and Restated 1999 Equity Incentive Plan.
10.1.2(2)*	Form of Stock Option Agreement pursuant to the Blue Nile, Inc. 1999 Equity Incentive Plan.
10.2.1(3)*	Blue Nile, Inc. 2004 Non-Employee Directors' Stock Option Plan.
10.2.2(6)*	Form of Stock Option Agreement pursuant to the Blue Nile, Inc. 2004 Non-Employee Directors' Stock Option Plan.
10.3(2)*	Blue Nile, Inc. 2004 Employee Stock Purchase Plan.
10.4.1(4)*	Blue Nile, Inc. 2004 Equity Incentive Plan.
10.4.2(6)*	Form of Stock Option Agreement pursuant to the 2004 Equity Incentive Plan.
10.4.3(5)*	Blue Nile, Inc. Stock Grant Notice pursuant to the 2004 Equity Incentive Plan.
10.5.1(4)	Sublease Agreement, dated May 22, 2003, between Amazon.com Holdings, Inc. and the registrant.
10.5.2(4)	First Amendment to Sublease Agreement, dated July 3, 2003, between Amazon.com Holdings, Inc. and the registrant.
10.6.1(4)	Lease, dated June 28, 2001, between Gull Industries, Inc. and the registrant.
10.6.2(4)	First Amendment to Lease, dated December 11, 2002 between Gull Industries, Inc. and the registrant.
10.6.3(4)	Second Amendment to Lease, dated November 15, 2003, between Gull Industries, Inc. and the registrant.
10.7(2)*	Offer Letter with Diane M. Irvine, dated December 1, 1999.
10.8(2)*	Offer Letter with Robert L. Paquin, dated September 7, 1999.
10.9(2)*	Offer Letter with Dwight Gaston, dated May 14, 1999.
10.10(2)*	Offer Letter with Susan S. Bell, dated August 22, 2001.
10.11(2)*	Offer Letter with Darrell Cavens, dated July 30, 1999.
10.12(6)*	Offer Letter with Terri Maupin, dated July 22, 2003.
10.13(4)	Form of Indemnification Agreement entered into between Blue Nile, Inc. and each of its directors and executive officers.
21.1(6)	Subsidiaries of the Registrant.
23.1(6)	Consent of PricewaterhouseCoopers LLP.
31.1(6)	Certification of Chief Executive Officer Required Under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2(6)	Certification of Principal Financial Officer Required Under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.

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Exhibit Number	Description
32.1(7)	Certification of Chief Executive Officer Required Under Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
32.2(7)	Certification of Principal Financial Officer Required Under Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

* Denotes a compensatory plan, contract or agreement, in which the Company's directors or executive officers may participate.

- (1) Previously filed as Exhibit 3.1 to Blue Nile, Inc.'s Form 10-Q for the quarterly period ended July 4, 2004 (No. 000-50763), as filed with the Securities and Exchange Commission on August 6, 2004, and incorporated by reference herein.
- (2) Previously filed as the like numbered exhibit to Blue Nile, Inc.'s Registration Statement on Form S-1 (No. 333-113494), as filed with the Securities and Exchange Commission on March 11, 2004, as amended, and incorporated by reference herein.
- (3) Previously filed as the like numbered exhibit to Blue Nile, Inc.'s Registration Statement on Form S-1/ A (No. 333-113494), as filed with the Securities and Exchange Commission on May 4, 2004, as amended, and incorporated by reference herein.
- (4) Previously filed as the like numbered exhibit to Blue Nile, Inc.'s Registration Statement on Form S-1/ A (No. 333-113494), as filed with the Securities and Exchange Commission on April 19, 2004, as amended, and incorporated by reference herein.
- (5) Previously filed as Exhibit 10.1 to Blue Nile, Inc.'s Current Report on Form 8-K (No. 000-50763), as filed with the Securities and Exchange Commission on December 13, 2004 and incorporated by reference herein.
- (6) Filed herewith.
- (7) The certifications attached as Exhibits 32.1 and 32.2 accompanies this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by Blue Nile, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.