

CHESAPEAKE ENERGY CORP
Form 11-K
June 30, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 1-13726

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

**CHESAPEAKE ENERGY CORPORATION SAVINGS AND
INCENTIVE**

STOCK BONUS PLAN

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

CHESAPEAKE ENERGY CORPORATION

6100 NORTH WESTERN AVENUE

OKLAHOMA CITY, OK 73118

CHESAPEAKE ENERGY CORPORATION

SAVINGS AND INCENTIVE STOCK BONUS PLAN

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

December 31, 2005 and 2004

Chesapeake Energy Corporation

Savings and Incentive Stock Bonus Plan

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Note: Other schedules required by section 2520-103.10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants and Members of the Employee Compensation and Benefits

Committee of Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan:

In our opinion the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan (the "Plan") at December 31, 2005 and 2004 and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Assets (Held at End of Year) at December 31, 2005 and Reportable Transactions for the year ended December 31, 2005 are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Oklahoma City, Oklahoma

June 29, 2006

Chesapeake Energy Corporation**Savings and Incentive Stock Bonus Plan****Statements of Net Assets Available for Benefits****December 31, 2005 and 2004**

| | December 31, | |
|--|---------------------|---------------|
| | 2005 | 2004 |
| Assets | | |
| Investments (at fair value) (See Note 3) | \$ 150,271,220 | \$ 77,421,054 |
| Receivables | | |
| Employer contributions | | 3,647 |
| Participants' contributions | | 1,372 |
| Dividends | 182,003 | 147,311 |
| Other (See Note 10) | | 88,916 |
| Due from broker | | 23,203 |
| Total assets | 150,453,223 | 77,685,503 |
| Liabilities | | |
| Accrued liabilities | 35,301 | 33,539 |
| Due to broker | 412,233 | |
| Total liabilities | 447,534 | 33,539 |
| Net assets available for benefits | \$ 150,005,689 | \$ 77,651,964 |

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

Chesapeake Energy Corporation**Savings and Incentive Stock Bonus Plan****Statements of Changes in Net Assets Available for Benefits****Years Ended December 31, 2005 and 2004**

| | Years Ended December 31, | |
|--|---------------------------------|---------------|
| | 2005 | 2004 |
| Additions to net assets attributed to: | | |
| Investment income: | | |
| Interest and dividends | \$ 1,886,750 | \$ 1,011,599 |
| Net appreciation in fair value of investments | 55,328,971 | 10,898,273 |
| Total investment income | 57,215,721 | 11,909,872 |
| Contributions: | | |
| Employer | 9,454,651 | 6,067,527 |
| Participants | 11,807,591 | 7,112,977 |
| Other (See Note 10) | | 88,916 |
| Total contributions | 21,262,242 | 13,269,420 |
| Total additions | 78,477,963 | 25,179,292 |
| Deductions from net assets attributed to: | | |
| Benefits paid to participants | 5,947,813 | 1,568,172 |
| Administrative expenses | 176,425 | 83,360 |
| Total deductions | 6,124,238 | 1,651,532 |
| Net increase | 72,353,725 | 23,527,760 |
| Net assets available for benefits: | | |
| Beginning of year | 77,651,964 | 54,124,204 |
| End of year | \$ 150,005,689 | \$ 77,651,964 |

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

Chesapeake Energy Corporation

Savings and Incentive Stock Bonus Plan

Notes to Financial Statements

December 31, 2005 and 2004

1. Description of the Plan

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

General

The Plan is a defined contribution plan that covers all employees of Chesapeake Energy Corporation and its subsidiaries (the "Company"), except for the employees of NOMAC Drilling Corporation, a wholly-owned subsidiary, and union employees of Chesapeake Appalachia, a wholly-owned subsidiary. Any employee who is at least 21 years old and has completed three months of employment with the Company is eligible to participate in the Plan.

Contributions

Each year, participants may contribute up to 75 percent of pre-tax annual compensation, as defined by the Plan. Participants may also contribute amounts representing rollover distributions from other qualified plans. Participants who are age 50 and above may also elect to make catch-up contributions.

The Company matches 100 percent of participant contributions up to 15 percent of eligible participant compensation. Profit-sharing contributions may be made at the discretion of the Company's board of directors. No discretionary profit-sharing contributions were made in 2005 or 2004. Participant and Company contributions are subject to certain limitations.

The Company's matching contribution is used to purchase shares of Chesapeake Energy Corporation Common Stock (the "Common Stock") on the open market. The Company's contribution is made in cash and shares of Common Stock which have been forfeited to the Company by terminated participants. Participants may also elect to direct all or a portion of their contributions into the Common Stock. Participants may not transfer or liquidate their investment in Common Stock arising from employer contributions and earnings thereon until they elect to withdraw from the Plan due to separation of service or elect an in-service distribution upon attainment of age 59 ½.

Participant Accounts

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

Vesting

Participants are immediately vested in their personal contributions plus actual earnings thereon. Vesting in the Company's matching and profit-sharing contributions plus actual earnings thereon is based on years of credited service or participant age. A participant shall become 100 percent vested after five years of credited service under a graded vesting schedule.

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Chesapeake Energy Corporation

Savings and Incentive Stock Bonus Plan

Notes to Financial Statements

December 31, 2005 and 2004

Participant Loans

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. Loan terms range from one to five years or up to ten years for the purchase of a primary residence. The loans are collateralized by the balance in the participant's account and bear interest at the prime interest rate at the time of loan origination. The prime interest rate at December 31, 2005 was 7.25%. Principal and interest is paid ratably through semi-monthly payroll deductions. Interest rates on loans outstanding at December 31, 2005 ranged from 4.00% to 9.50% with loans maturing at various dates through 2015.

Payment of Benefits

Upon termination of service due to death, retirement or separation from service, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or have the value rolled over to another qualified plan or IRA.

Amounts Forfeited

Forfeited non-vested amounts are first used to pay administrative expenses of the Plan or to restore unvested amounts to re-employed participants. Any remaining forfeitures are used to reduce Company contributions into the Plan. Forfeited non-vested accounts totaled \$420,737 and \$243,879 at December 31, 2005 and 2004, respectively. During 2005 and 2004, administrative expenses were reduced by \$167,739 and \$62,802, respectively, and employer matching contributions were reduced by \$0 and by \$0, respectively, from forfeited non-vested accounts.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

Investment Valuation and Income Recognition

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The Plan's investments are stated at fair value. Shares of mutual funds are valued at net asset value on the last business day of the year. Shares of common/collective trusts are valued at net asset value of shares held by the Plan at year-end as reported by the trustee.

Chesapeake Energy Corporation

Savings and Incentive Stock Bonus Plan

Notes to Financial Statements

December 31, 2005 and 2004

Chesapeake Energy Corporation Common Stock is valued at the closing market price on the last business day of the year, according to the New York Stock Exchange. Participant loans are valued at outstanding principal balances plus accrued interest, which approximates fair value.

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

The Plan presents, in the Statement of Changes in Net Assets Available for Benefits, the net appreciation (depreciation) in the fair value of investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

Payment of Benefits

Benefits are recorded when paid.

Risks and Uncertainties

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

Plan Expenses

Trustee and recordkeeper fees are paid by the Plan. Certain plan expenses, such as annual audit fees, are paid by the plan sponsor and are not included in these financial statements.

3. Investments

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

| | 2005 | 2004 |
|--|-----------------|----------------|
| Chesapeake Energy Corporation Common Stock | \$ 115,904,807* | \$ 54,014,019* |

*Balances include nonparticipant-directed investments.

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Chesapeake Energy Corporation

Savings and Incentive Stock Bonus Plan

Notes to Financial Statements

December 31, 2005 and 2004

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

| | 2005 | 2004 |
|---------------|---------------|---------------|
| Mutual funds | \$ 1,594,482 | \$ 1,714,240 |
| Common stocks | 53,734,489 | 9,184,033 |
| Total | \$ 55,328,971 | \$ 10,898,273 |

Chesapeake Energy Corporation**Savings and Incentive Stock Bonus Plan****Notes to Financial Statements****December 31, 2005 and 2004****4. Nonparticipant-directed Investments**

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

| | 2005 | | 2004 |
|--|----------------|---|---------------|
| Net assets, beginning balance: | | | |
| Chesapeake Energy Corporation Common Stock | \$ 54,014,019 | | \$ 38,265,445 |
| Changes in net assets: | | | |
| Contributions | \$ 12,203,174 | | \$ 7,551,620 |
| Dividend income | 674,398 | | 485,635 |
| Net appreciation | 53,734,489 | | 9,184,033 |
| Benefits paid to participants | (4,550,551 |) | (1,108,328 |
| Transfers to other investment options, net | (170,722 |) | (364,386 |
| Net increase in assets during the year | 61,890,788 | | 15,748,574 |
| Net assets, ending balance: | | | |
| Chesapeake Energy Corporation Common Stock | \$ 115,904,807 | | \$ 54,014,019 |

5. Party-in-interest Transactions

Certain Plan investments are shares of the Common Stock. These transactions represent investments in the Company and, therefore, qualify as party-in-interest transactions. Further, certain Plan investments are shares of mutual funds and common collective trusts managed by Fidelity Investments and Union Bank of California (UBOC). Fidelity Management Trust Company and UBOC are the trustees as defined by the Plan, and, therefore, transactions in mutual funds and common collective trusts managed by Fidelity Investments and UBOC qualify as party-in-interest transactions. During 2005 and 2004, there were 349 and 34 purchases of the Common Stock for a total purchase price of \$13,982,789 and \$6,674,933, respectively, and there were 179 and 0 sales of the Common Stock for a total selling price of \$6,405,723 and 0, respectively.

6. Tax Status

The Plan obtained its latest determination letter on April 22, 1997, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (the IRC). The Plan has been

Chesapeake Energy Corporation

Savings and Incentive Stock Bonus Plan

Notes to Financial Statements

December 31, 2005 and 2004

amended since receiving the determination letter. However, the plan administrator believes the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

7. Plan Termination

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

8. Concentration of Investments

As of December 31, 2005, the Plan held \$115,904,807 of Common Stock of the Company, which is 77% of total investments. Changes in the value of the Company will offset the price of shares held by the Plan. These changes could be significant.

9. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits as of December 31, 2005 and 2004, as reflected in the accompanying financial statements, to the Form 5500:

| | 2005 | 2004 |
|--|----------------|---------------|
| Net assets available for benefits per the financial statements | \$ 150,005,689 | \$ 77,651,964 |
| Add: Accrued administrative expenses | 35,301 | 33,539 |
| Net assets available for benefits per the Form 5500 | \$ 150,040,990 | \$ 77,685,503 |

The following is a reconciliation of administrative expenses for the years ended December 31, 2005 and 2004, as reflected in the accompanying financial statements, to the Form 5500:

| 2005 | 2004 |
|-------------|-------------|
|-------------|-------------|

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| | | | |
|--|------------|-----------|---|
| Administrative expenses per the financial statements | \$ 176,425 | \$ 83,360 | |
| Add: Previous year accrued administrative expenses | 33,539 | 18,780 | |
| Less: Current year accrued administrative expenses | (35,301 |) (33,539 |) |
| Administrative expenses per the Form 5500 | \$ 174,663 | \$ 68,601 | |

Administrative expenses are recorded on the Form 5500 when paid.

Chesapeake Energy Corporation

Savings and Incentive Stock Bonus Plan

Notes to Financial Statements

December 31, 2005 and 2004

10. Other Receivable

Subsequent to the plan year ended December 31, 2004, the Company identified certain recordkeeping errors related to the investment allocation of 82 participants. The Plan has taken steps to prevent future errors of this type and has fully corrected the errors discovered without any loss to Plan participants. The adjustment related to this error of \$88,916 is included in *Other Receivable* on the Statements of Net Assets Available for Benefits at December 31, 2004 and shown as *Other Contributions* on the Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2004.

11. Recent Accounting Pronouncements

On December 29, 2005, the Financial Accounting Standards Board ("FASB") released FASB Staff Position Nos. AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans ("FSP")*. The FSP clarifies the definition of fully benefit-responsive investment contracts for the contracts held by defined contribution plans. The FSP also establishes enhanced financial statement presentation and disclosure requirements for defined contribution plans subject to the FSP effective for financial statements issued for periods ending after December 15, 2006. Management is currently evaluating the effect of the pronouncement on the financial statements.

Chesapeake Energy Corporation**Savings and Incentive Stock Bonus Plan****Schedule of Assets (Held at End of Year)****December 31, 2005****Schedule 1**

| Identity of Issuer, Borrower, Lessor, or Similar Party | Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value | Cost | Current Value |
|---|--|--------------|--------------------------|
| *Chesapeake Energy Corporation | Common Stock, \$0.01 par value | \$35,390,090 | \$ 115,904,807 |
| Vanguard Target Retirement Inc | Mutual Funds | ** | 570,587 |
| Vanguard Target Retirement 2005 | Mutual Funds | ** | 12,238 |
| T Rowe Price Retirement 2010 R | Mutual Funds | ** | 1,855,242 |
| Vanguard Target Retirement 2015 | Mutual Funds | ** | 107,670 |
| T Rowe Price Retirement 2020 R | Mutual Funds | ** | 2,205,831 |
| Vanguard Target Retirement 2025 | Mutual Funds | ** | 176,954 |
| T Rowe Price Retirement 2030 R | Mutual Funds | ** | 1,338,580 |
| Vanguard Target Retirement 2035 | Mutual Funds | ** | 173,198 |
| T Rowe Price Retirement 2040 R | Mutual Funds | ** | 469,819 |
| Vanguard Target Retirement 2045 | Mutual Funds | ** | 24,031 |
| *UBOC Stable Value | Common/Collective Trust | ** | 3,717,032 |
| Delaware Group: Div Inc A | Mutual Funds | ** | 777,531 |
| Hotchkins & Wiley Large Cap Value A | Mutual Funds | ** | 2,269,082 |
| Davis New York Venture A | Mutual Funds | ** | 3,076,094 |
| Legg Mason Growth Trust Institutional | Mutual Funds | ** | 3,271,347 |
| Goldman Sachs MidCap Value I | Mutual Funds | ** | 4,772,658 |
| Legg Mason Opp. Trust I | Mutual Funds | ** | 2,328,376 |
| Hotchkins & Wiley Small Cap Value A | Mutual Funds | ** | 321,177 |
| Royce Value Plus Inv | Mutual Funds | ** | 756,965 |
| Boston Co. International Core Equity | Mutual Funds | ** | 549,379 |
| Fidelity Advisor Diversified International A | Mutual Fund | ** | 3,034,549 |
| Highmark Money Market | Interest Bearing Cash | ** | 268,277 |
| Principal Cash | Interest Bearing Cash | ** | 412,233 |
| Individually Directed Account | Common Stocks & Mutual Funds | ** | 367,629 |
| *Participant Loans | Due Through September 4, 2015 Interest Rates Ranging From 4.00 Percent To 9.50 Percent | ** | 1,509,934 |
| | | | \$ 150,271,220 |

* Identifies parties-in-interest.

** Identifies participant-directed investment options for which presentation of cost in the

Schedule of Assets (Held at End of Year) is not required.

Chesapeake Energy Corporation

Savings and Incentive Stock Bonus Plan

Schedule of Reportable Transactions

>December 31, 2005

Schedule 2

| Description of Asset | Number of Purchases | Number of Sales | Total Purchase Price | Total Selling Price | Net Gain (Loss) |
|---|----------------------------|------------------------|-----------------------------|----------------------------|------------------------|
| *Chesapeake Energy Corporation Common Stock | 349 | 179 | \$ 13,982,789 | \$ 6,405,723 | \$ 4,504,361 |

*Identifies parties-in-interest.

SIGNATURES

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

CHESAPEAKE ENERGY CORPORATION

Savings and Incentive Stock Bonus Plan

By: /s/ MARY WHITSON
Mary Whitson, Plan Administrator

Date: June 29, 2006

EXHIBIT INDEX

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

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Exhibit 23

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-07255, 333-30324 and 333-118312) of Chesapeake Energy Corporation of our report dated June 24, 2005 relating to the financial statements of Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan, which appears in this Form 11-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Oklahoma City, Oklahoma

June 29, 2006