CHESAPEAKE ENERGY CORP
Form 11-K
June 28, 2013

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

For the fiscal year ended December 31, 2012

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
Index

Note: Other schedules required by section 2520-103.10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA) have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

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

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, 2012 and 2011, 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 Schedule of Assets (Held at End of Year) 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.

/s/ PricewaterhouseCoopers LLP

Tulsa, Oklahoma

June 28, 2013

Chesapeake Energy Corporation
Savings and Incentive Stock Bonus Plan
Statements of Net Assets Available for Benefits

	December 31, 2012	2011
Assets:		
Investments, at fair value	$640,908,206	$544,839,981
Receivables:		
Notes receivable from participants	15,557,401	12,967,488
Employee contributions	11,981	1,288
Employer contributions	(9,352)	87,446
Dividends	1,572,356	979,087
Total assets	658,040,592	558,875,290
Liabilities:		
Accrued administrative expenses	51,944	—
Total liabilities	51,944	—
Net assets available for benefits, at fair value	657,988,648	558,875,290
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(251,618)	(178,083)
Net assets available for benefits	$657,737,030	$558,697,207

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

2

Chesapeake Energy Corporation
Savings and Incentive Stock Bonus Plan
Statements of Changes in Net Assets Available for Benefits

	Years Ended December 31,	
	2012	2011
Investment income (loss):		
Dividends	$11,760,185	$8,460,803
Interest on notes receivable from participants	677,442	512,657
Net appreciation (depreciation) in fair value of investments	(37,407,861)	(54,338,963)
Total investment income (loss)	(24,970,234)	(45,365,503)
Contributions:		
Employer	87,861,427	69,677,405
Participants	97,639,645	78,038,998
Total contributions	185,501,072	147,716,403
Total additions	160,530,838	102,350,900
Deductions:		
Benefits paid to participants	(60,676,732)	(35,354,272)
Administrative expenses	(814,283)	(418,669)
Total deductions	(61,491,015)	(35,772,941)
Transfers (see Note 1):		
Net transfers in/(out)	—	5,102,121
Net increase in net assets available for benefits	99,039,823	71,680,080
Net assets available for benefits:		
Beginning of year	558,697,207	487,017,127
End of year	$657,737,030	$558,697,207

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

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").

General and Eligibility

The Plan is a defined contribution plan that covers all eligible employees of Chesapeake Energy Corporation (the “Company”) and its subsidiaries, except for hourly employees of Chesapeake Appalachia, L.L.C., a wholly owned subsidiary, that are members of the United Steel Workers of America Union. Any covered employee who is at least 18 years old and has completed three full months of employment with the Company is eligible to participate in the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Principal Trust Company, an affiliate of Principal Financial Group (“Principal”), serves as trustee and record keeper for the Plan.

Effective July 1, 2009, the Plan was amended to designate the employer stock option as an Employee Stock Ownership Plan ("ESOP"), now considered a subset of the Plan. Effective March 1, 2012, the Plan was amended to include in the Adopting Employers list PTL Prop Solutions, L.L.C., Chesapeake Land Development Company, L.L.C., and Nichols Hills Market, L.L.C. Effective September 27, 2012, October 31, 2012, November 5, 2012, and December 31, 2012, the Plan was amended to change the vesting percentage to 100 percent for those employees who became employed by companies that purchased assets sold by the Company. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

Transfers

Due to the Company's acquisition or divestiture activity as well as employee status changes, assets may transfer into or out of the Plan. These transfers, if any, are shown as Net transfers in/(out) on the Statements of Changes in Net Assets Available for Benefits. Effective October 2011, the Bronco Drilling 401(k) Plan merged into the Plan. All assets of the Bronco Drilling 401(k) Plan were transferred in to the Plan on October 7, 2011. The fair market value of assets transferred into the Plan was $5,102,121.

Contributions

Each year, participants may contribute up to 75% of pre-tax annual salary compensation and up to 100% of performance-related bonus compensation, as defined by the Plan, subject to certain limitations ($17,000 in 2012 and $16,500 in 2011). In addition, participants who are age 50 and above may elect to make “catch-up” contributions, limited to $5,500 in 2012 and 2011. Participants may also contribute amounts representing rollover distributions from other qualified plans.

The Company matches 100% of participant contributions up to 15% of eligible participant compensation. The Company's matching contributions of $87,861,427 and $69,677,405 for 2012 and 2011, respectively, were made in shares of the Company's common stock. Profit-sharing contributions may be made at the discretion of the Company. Contributions are subject to certain annual Internal Revenue Service limitations. No discretionary profit-sharing contributions were made in 2012 or 2011.

The Company’s matching contribution is invested in Company common stock. These contributions are made in cash, which is used to purchase shares of Company common stock on the open market, and shares of Company common stock previously forfeited by Plan participants. Participants may also elect to direct all or a portion of their contributions into Company common stock. Employees are allowed to direct the transfer of 100% of employer stock from Company matching contributions after:

(a) reaching age 55, or

(b) completing at least three years of vesting service.

Chesapeake Energy Corporation
Savings and Incentive Stock Bonus Plan
Notes to Financial Statements – (continued)

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of the Company's contribution and Plan investment income (loss). Allocations are based on participant investment income (loss) 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 retirement at or after age 55. A participant becomes 100% vested after five years of credited service under a graded vesting schedule.

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% 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 a rate of prime plus 2% at the time of loan origination. The prime rate as of December 31, 2012 was 3.25%. Principal and interest are paid ratably through payroll deductions. Interest rates on loans outstanding at December 31, 2012 ranged from 3.25% to 10.5% with loans maturing at various dates through 2022.

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. Participants may elect to have the value of investments vested in Company common stock paid in cash or shares of common stock.

Amounts Forfeited

Forfeited non-vested amounts are generally used to pay administrative expenses of the Plan or to reduce future Company contributions into the Plan. Unallocated forfeited non-vested accounts totaled $4,806,214 and $2,971,821 as of December 31, 2012 and 2011, respectively. During 2012 and 2011, administrative expenses were reduced by $253,691 and $122,192, respectively, and employer matching contributions were reduced by $2,617,697 and $2,106,820, 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 accounting principles generally accepted in the United States of America ("U.S. GAAP") requires the plan administrator to make estimates and assumptions that affect the reported amounts of net assets available for benefits and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value. Shares of mutual funds are valued at net asset value on the last business day of the year. Company common stock is valued at the closing market price on the last business day of the year, as reported by the New York Stock Exchange. Units of pooled separate accounts are recorded at estimated unit value based on the estimated market value of the underlying assets net of

annual expense charges divided by the beginning units. The pooled separate accounts are redeemable daily without restrictions. The assets held in self-directed brokerage accounts consist of stocks and bonds that are valued using quoted market prices.

Effective January 1, 2007, the Plan entered into a benefit-responsive investment contract, referred to as the Principal Fixed Income Option 401(a)(k), with Principal. Principal maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at the contract value. However, the Company will be assessed a penalty of 5% of the contract value if it were to discontinue the investment contract without a 12-month notification to Principal. As of December 31, 2012, the Company did not intend to discontinue the investment contract with Principal. This investment is presented at fair value with an adjustment to contract value in the Statements of Net Assets Available for Benefits. Contract value is equal to the principal balance plus accrued interest. Fair value is the present value of the expected principal balance and interest cash flows over the remaining term of the investment contract through June 30, 2021, discounted at the risk-free rate of return for this period. There are no reserves against the contract value for credit risk of the contract issuer or otherwise. The crediting interest rates are reset every January 1 and July 1 as determined by Principal, and were 2.5% and 2.35% for interest rate periods January 1, 2012 through June 30, 2012 and July 1, 2012 through December 31, 2012, respectively, compared to interest rates of 2.75% and 2.7% for interest rate periods January 1, 2011 through June 30, 2011 and July 1, 2011 through December 31, 2011, respectively. The average yield for 2012 was 2.60% compared to 3.27% in 2011.

Purchases and sales of securities are recorded on a trade-date basis. Investment income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. The Statements of Changes in Net Assets Available for Benefits present the net appreciation (depreciation) in the fair value of investments, reflecting the realized gains and losses and the unrealized appreciation (depreciation) of those investments during the years presented.

Fair Value Measurements

Assets and liabilities that are required to be measured at fair value are categorized based upon the levels of judgment associated with the inputs used to measure their fair value. See Note 4 for the fair value measurement disclosures associated with the Plan’s 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 continue to occur in the near term and that such changes could materially affect participants’ account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statements 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.

New Accounting Pronouncements

In May 2011, the FASB issued an update to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards ("IFRS"). The amendments are of two types: (i) those that clarify the Board’s intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair

6

value measurements. This guidance required additional disclosures around the Plan's Level 3 assets that are reported at fair value. The update was effective for annual periods beginning after December 15, 2011 and was adopted by us on January 1, 2012. The adoption of this update did not have a material impact on the Plan's financial statements.

3. Investments

The following presents investments that represented 5% or more of the Plan's net assets as of December 31, 2012 and 2011:

	2012		2011	
Chesapeake Energy Corporation common stock	$242,204,090	*	$246,005,310	*
Principal Fixed Income Option 401(a)(k)	$34,208,203		$30,114,924	
Vanguard Target Retirement 2020 Fund	$33,766,270		$25,973,779	**

* Balances include non-participant directed investments.

** Investment balance did not represent 5% or more of the Plan's assets as of December 31, 2011; presented for comparable purposes only.

For the years ended December 31, 2012 and 2011, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows: