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CHESAPEAKE ENERGY CORP

Form 11-K

June 30, 2003

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  
(Fee Required)

For the fiscal year ended December 31, 2002

Or

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
(No Fee Required)

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  
6100 NORTH WESTERN AVENUE  
OKLAHOMA CITY, OK 73118

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, 2002 AND 2001

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CHESAPEAKE ENERGY CORPORATION  
SAVINGS AND INCENTIVE STOCK BONUS PLAN  
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DECEMBER 31, 2002 AND 2001

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REPORT OF INDEPENDENT AUDITORS

To the Participants and the Members of the Oversight Committee of the  
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, 2002 and 2001, 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 financial statements in accordance with auditing standards generally accepted in the United States of America, which 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) and Reportable Transactions 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

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responsibility of the Plan's management. These 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

June 6, 2003  
Oklahoma City, Oklahoma

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CHESAPEAKE ENERGY CORPORATION  
SAVINGS AND INCENTIVE STOCK BONUS PLAN  
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS  
DECEMBER 31, 2002 AND 2001

	2002	2001
	-----	-----
Assets	\$ 27,925,744	\$ 20,727,877
Investments		
Receivables		
Employer contribution	84,673	-
Participants' contributions	85,053	-
Dividends	72,339	-
Cash	85,041	20,530
	-----	-----
Total assets	28,252,850	20,748,407
	=====	=====
 Liabilities		
Accrued liabilities	28,794	27,319
	-----	-----
Net assets available for benefits	\$ 28,224,056	\$ 20,721,088
	=====	=====

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, 2002 AND 2001

	2002	2001
	-----	-----

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Additions to net assets attributed to		
Investment income		
Interest and dividends	\$ 293,691	\$ 216,172
Net appreciation (depreciation) in fair value of investments	1,572,008	(6,773,115)
	-----	-----
Total investment income (loss)	1,865,699	(6,556,943)
	-----	-----
Contributions		
Employer	2,876,857	1,837,636
Participants	3,507,850	2,298,617
	-----	-----
Total contributions	6,384,707	4,136,253
	-----	-----
Total additions	8,250,406	(2,420,690)
	-----	-----
Deductions from net assets attributed to		
Benefits paid to participants	693,203	392,858
Administrative expenses	54,235	59,260
	-----	-----
Total deductions	747,438	452,118
	-----	-----
Net increase (decrease)	\$ 7,502,968	\$ (2,872,808)
	-----	-----
Net assets available for benefits		
Beginning of the year	20,721,088	23,593,896
	-----	-----
End of the year	\$ 28,224,056	\$ 20,721,088
	=====	=====

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

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CHESAPEAKE ENERGY CORPORATION  
SAVINGS AND INCENTIVE STOCK BONUS PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

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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.

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### CONTRIBUTIONS

Each year, participants may contribute up to 15 percent of pre-tax annual compensation, as defined in the Plan. Participants may also contribute amounts representing rollover distributions from other qualified plans. During 2001 the Company contributed 100 percent of the first 10 percent of base compensation that a participant contributed to the Plan. Effective January 1, 2002 the Plan was amended to increase the maximum of employer matching contributions to 100 percent of the first 15 percent of participant contributions. Profit sharing contributions may be made at the discretion of the Company's board of directors. No discretionary profit sharing contributions were made in 2002 and 2001. 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. Participants may also elect to direct all or a portion of their contributions into the Common Stock.

### 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 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's age. A participant will be 100 percent vested after six years of credited service. Effective July 1, 2003, a participant will be 100 percent vested after five years of credited service. Additionally, a participant will become fully vested upon attaining age 55, early retirement age under the plan, and completing five years of service.

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### PARTICIPANT NOTES RECEIVABLE

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. Principal and interest is paid ratably through semi-monthly payroll deductions. Interest rates on loans outstanding at December 31, 2002 ranged from 4.75 percent to 9.75 percent.

### 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, annual installments, or have the value rolled over to another qualified plan or IRA. Those participants who were Plan participants as of December 31, 1999 may elect to receive benefits in the form of

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annuity payments.

### AMOUNTS FORFEITED

Forfeited nonvested 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 nonvested accounts totaled \$155,929 and \$151,097 at December 31, 2002 and 2001, respectively. During 2002 forfeited nonvested accounts of \$111,429 were used to reduce employer matching contributions and \$48,019 to pay administrative expenses of the Plan.

## 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

The Plan's investments are stated at fair value. Shares of mutual funds are valued at quoted market prices on the last business day of the year. 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 receivable are valued at outstanding principal balance, 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 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.

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### 3. INVESTMENTS

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

	2002	2001
Chesapeake Energy Corporation Common Stock	\$18,663,410 *	\$13,066,600 *
Fidelity Retirement Money Market Fund	2,008,864	1,444,950

\* Balances include nonparticipant-directed investments

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

	2002	2001
Mutual Funds	\$(1,238,182)	\$ (574,569)
Chesapeake Energy Corporation Common Stock	2,810,190	(6,198,546)
	\$ 1,572,008	\$ (6,773,115)
	=====	=====

### 4. NONPARTICIPANT-DIRECTED INVESTMENTS

Investment in the Chesapeake Energy Corporation 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 Chesapeake Energy Corporation common stock is as follows:

	2002	2001
Net assets		
Cheapeake Energy Corporation common stock	\$ 18,663,410	\$ 13,066,600
Changes in net assets		
Contributions	\$ 3,350,369	\$ 2,288,132
Net appreciation (depreciation)	2,810,190	(6,198,546)
Benefits paid to participants	(372,741)	(218,364)
Transfers from (to) other investments options, net	(191,009)	(151,513)
	\$ 5,596,809	\$ (4,280,291)
	=====	=====

### 5. PARTY-IN-INTEREST TRANSACTIONS

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Certain Plan investments are shares of Chesapeake Energy Corporation 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 managed by Fidelity Investments. Fidelity Management Trust Company is the trustee as defined by the Plan, and, therefore, transactions in mutual funds managed by Fidelity Investments qualify as party-in-interest transactions.

### 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 amended since receiving the determination letter. However, the plan administrator and the plan's tax counsel believe 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.

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### 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, 2002 net assets available for benefits in the amount of \$18,663,410 and \$8,422,856 were invested in Chesapeake Energy Common Stock and mutual funds managed by Fidelity Investments, respectively.

### 9. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits as of December 31, 2002 and 2001, as reflected in the accompanying financial statements to the Form 5500:

	2002 -----	2001 -----
Net Assets available for benefits per the financial statements	\$ 28,224,056	\$ 20,721,088
Add: Accrued administrative expenses	28,794	27,319
Less: Accrued dividend		



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income	72,339	-
	-----	-----
Net assets available for benefits per the Form 5500	\$ 28,180,511	\$ 20,748,407
	-----	-----

The following is a reconciliation of administrative expenses for the year ended December 31, 2002 and 2001, as reflected in the accompanying financial statements to the Form 5500:

	2002	2001
	-----	-----
Administrative expenses per the financial statements	\$ 54,235	59,260
Add: Previous year accrued administrative expenses	27,319	-
Less: Current year accrued administrative expenses	(28,794)	(27,319)
	-----	-----
Administrative expenses per the Form 5500	\$ 52,760	\$ 31,941
	=====	=====

Administrative expenses are recorded on the Form 5500 when paid.

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CHESAPEAKE ENERGY CORPORATION  
SAVINGS AND INCENTIVE STOCK BONUS PLAN  
SCHEDULE H, Line 4i - Schedule of Assets (Held at End of Year)  
DECEMBER 31, 2002

Identity of Issue, Borrower, Lessor, or Similar Party	Description of Investment Including Maturity Date Collateral Par, or Maturity Value	Cost	Value
*Chesapeake Energy Corporation	Common Stock	\$ 9,639,691	\$18,663,410
*Fidelity Equity Inc.	Mutual Funds	**	464,155
*Fidelity Growth Co.	Mutual Funds	**	594,248
*Fidelity OTC Portfolio	Mutual Funds	**	287,575
*Fidelity Low Priced Stock Fund	Mutual Funds	**	1,124,063
*Fidelity Aggressive Growth	Mutual Funds	**	524,494
*Fidelity Diversified International Fund	Mutual Funds	**	807,177
*Fidelity Freedom Income	Mutual Funds	**	55,011
*Fidelity Freedom 2000	Mutual Funds	**	75,647
*Fidelity Freedom 2010	Mutual Funds	**	532,643
*Fidelity Freedom 2020	Mutual Funds	**	434,014

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*Fidelity Freedom 2030	Mutual Funds	**	245,924
*Fidelity Freedom 2040	Mutual Funds	**	6,307
*Fidelity Retirement Money Market	Mutual Funds	**	2,008,864
*Spartan US Equity Index	Mutual Funds	**	1,262,734
Brokeragelink participant- directed brokerage accounts	Common Stock	**	145,852
Alger Small Cap Institutional	Mutual Funds	**	61,948
Templeton Foreign A	Mutual Funds	**	70,833
Participant Loans	Interest Rates Ranging From 4.75% to 9.75%	**	560,845
			-----
			\$27,925,744
			=====

\* 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.

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CHESAPEAKE ENERGY CORPORATION  
SAVINGS AND INCENTIVE STOCK BONUS PLAN  
SCHEDULE H, Line 4j - Schedule of Reportable Transactions  
DECEMBER 31, 2002

Description of Assets	Number of Purchases	Number of Sales	Total Purchase Price	Total Selling Price	Net Gain (Loss)
Chesapeake Energy Corporation Stock Purchases	27	-	\$ 3,002,355	\$ -	\$ -
			-----	-----	-----

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee 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

/s/ Mary Whitson

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Mary Whitson, Plan Administrator

Date: June 30, 2003

EXHIBIT INDEX

Exhibit -----	Description -----
23	Consent of PricewaterhouseCoopers LLP
99.1	- Marcus C. Rowland, Executive Vice President and Chief Financial Officer, Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Martha A. Burger, Senior Vice President and Treasurer, Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.