

NOMAC DRILLING CORP  
Form 424B2  
August 09, 2007  
Table of Contents

Filed pursuant to Rule 424(b)(2)  
Registration No. 333-142720

PROSPECTUS SUPPLEMENT

(TO PROSPECTUS DATED MAY 8, 2007)

## Chesapeake Energy Corporation

**\$500,000,000**

### **2.500% Contingent Convertible Senior Notes due 2037**

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

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

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

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

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

upon the occurrence of specified corporate transactions.

The Base Conversion Price per share is \$51.5815 (the initial Base Conversion Price of \$51.5850, as adjusted for the payment of a \$0.0675 per share quarterly cash dividend on our common stock in July 2007), which represents a Base Conversion Rate of approximately 19.3868 shares of common stock per \$1,000 principal amount of notes. If, at the time of conversion, the Applicable Stock Price is less than or equal to the Base Conversion Price, the Applicable Conversion Rate will be equal to the Base Conversion Rate, as it may be adjusted. If the Applicable Stock Price is greater than the Base Conversion Price, then the Applicable Conversion Rate will be increased pursuant to the formula described in this prospectus supplement.

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

The notes are being offered as additional securities under an indenture pursuant to which we issued \$1,150,000,000 aggregate principal amount of 2.500% contingent convertible senior notes on May 15, 2007. The notes offered hereby and the notes issued in May 2007 will be treated as a single class of notes under the indenture. The notes offered hereby, however, will not have the same CUSIP number as and will not trade interchangeably with the previous notes.

Our common stock is listed on the New York Stock Exchange under the symbol CHK. On August 8, 2007, the closing sale price of our common stock on the New York Stock Exchange was \$35.43 per share.

## Edgar Filing: NOMAC DRILLING CORP - Form 424B2

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

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

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

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

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

|          | <b>Price to Public (1)</b> | <b>Underwriting Discounts<br/>and Commissions</b> | <b>Proceeds to Chesapeake<br/>Energy (1)</b> |
|----------|----------------------------|---|--|
| Per Note | 97.625%                    | 1.75%   | 95.875%                                      |
| Total    | \$488,125,000              | \$8,750,000                                       | \$479,375,000                                |

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

We have granted the underwriter a 13-day option to purchase up to an additional \$75,000,000 in aggregate principal amount of the notes from us on the same terms and conditions as set forth above to cover over-allotments.

Delivery of the notes in book-entry form only will be made on or about August 14, 2007.

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

---

## Deutsche Bank Securities

The date of this prospectus supplement is August 8, 2007.

**Table of Contents**

**NOTICE TO INVESTORS**

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

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

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

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

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

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

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

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

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

**Table of Contents**

**NOTICE TO NEW HAMPSHIRE RESIDENTS**

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

S-ii

---

**Table of Contents**

**PROSPECTUS SUPPLEMENT SUMMARY**

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

**Chesapeake**

We believe we are the third largest producer of natural gas in the United States (first among independents), and we own interests in approximately 36,500 producing oil and natural gas wells that are currently producing approximately 1.975 billion cubic feet equivalent, or bcfe, per day, 92% of which is natural gas. Our strategy is focused on discovering, acquiring and developing conventional and unconventional natural gas reserves onshore in the U.S. east of the Rocky Mountains.

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

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

During the first half of 2007, Chesapeake continued to lead the nation in drilling activity with an average utilization of 131 operated rigs and 102 non-operated rigs. Through this drilling activity, we drilled 977 (835 net) operated wells and participated in another 826 (115 net) wells operated by other companies. Our success rate was 99% for operated wells and 97% for non-operated wells. We replaced our 324 bcfe of production (1.788 bcfe per day average) with an internally estimated 1.347 tcf of new proved reserves for a reserve replacement rate of 416%. Reserve replacement through the drillbit was 1.145 tcf, or 354% of production (including 510 bcfe of positive performance revisions and 95 bcfe of positive revisions resulting from oil and natural gas price increases between December 31, 2006 and June 30, 2007) and 85% of the total increase. Reserve replacement through the acquisition of proved reserves was 202 bcfe, or 62% of production and 15% of the total increase. As a result, our proved reserves grew by 11% during the first half of 2007, from 9.0 tcf to 10.0 tcf. Of our 10.0 tcf of proved reserves, 62% were proved developed reserves.

During the past ten years, we have been one of the most active consolidators of onshore U.S. natural gas assets, having purchased approximately 6.7 tcf of proved reserves, at a total cost of approximately \$15.8 billion (including \$6.2 billion for unproved leasehold acquired through corporate and asset acquisitions). Additionally, we recorded \$1.090 billion of deferred taxes established in connection with certain corporate acquisitions.

## **Table of Contents**

Excluding the amounts allocated to unproved leasehold and deferred taxes, our acquisition cost per proved thousand cubic feet equivalent, or mcfe, was \$1.43 over this time period. Acquisition expenditures in the first half of 2007 totaled \$1.472 billion (including \$1.075 billion for unproved leasehold acquired through corporate and asset acquisitions). Additionally, we recorded \$101 million of deferred taxes established in connection with certain corporate acquisitions. The company has shifted its acquisition focus to smaller tactical acquisitions around its existing assets from the larger strategic acquisitions it has made in the past.

## **Business Strategy**

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

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

Key elements of this business strategy are further explained below:

*Grow through the Drillbit.* Our most distinctive characteristic is our commitment and ability to grow production and reserves through the drillbit. We are currently utilizing 157 operated drilling rigs and 105 non-operated drilling rigs to conduct the most active drilling program in the U.S. We focus both on finding significant new natural gas reserves and developing existing reserves, generally using more horizontal wells and deeper drilling than the industry average. For the past ten years, we have been actively investing in leasehold, 3-D seismic information and human capital to be able to take advantage of the favorable drilling economics that exist today. While we believe U.S. natural gas production has generally remained flat during the past ten years, we are one of the few large-cap independent oil and natural gas companies that have been able to increase production, which we have successfully achieved for the past 17 consecutive years and 24 consecutive quarters. We believe key elements of the success and scale of our drilling programs have been our recognition earlier than most of our competitors that (1) oil and natural gas prices were likely to move structurally higher, (2) new horizontal drilling and completion techniques would enable development of previously uneconomical natural gas resources and (3) various tight sand and shale formations could be geologically recognized as potentially prolific natural gas reservoirs rather than just sources of natural gas. In response to our early recognition of these three trends that began developing ten years ago, we have proactively hired thousands of new employees and have built the nation's largest onshore leasehold and 3-D seismic inventories, the building blocks of a successful large-scale drilling program and the foundation of value creation in the natural gas exploration and production (E&P) industry.

*Make High-Quality Acquisitions.* Our acquisition program is focused on acquisitions of natural gas properties that offer high-quality, long-lived production and significant development and higher potential horizontal and deep drilling opportunities. During the past ten years, we purchased approximately 6.7 tcf of proved reserves, at a total cost of approximately \$15.8 billion (including \$6.2 billion for unproved leasehold, but excluding \$1.090 billion of deferred taxes established in connection with certain corporate acquisitions). Excluding the amounts allocated to unproved leasehold and deferred taxes, our acquisition cost per proved mcfe was \$1.43 over this time period. The majority of these acquisitions either increased our ownership in existing wells or fields or added additional drilling locations in our focused operating areas. Our present focus is on

## **Table of Contents**

making smaller tactical acquisitions around our existing assets instead of the larger strategic acquisitions we have focused on in the past.

*Focus on Low Costs.* By minimizing lease operating costs and general and administrative expense through focused activities and increased scale, we have been able to deliver attractive financial returns through all phases of the commodity price cycle. We believe our low cost structure is the result of management's effective cost-control programs, a high-quality asset base and extensive and competitive services, natural gas processing and transportation infrastructures that exist in our key operating areas. In addition, to control costs and service quality, we have made significant investments in our drilling rig and trucking service operations and in our midstream gathering and compression operations. As of June 30, 2007, we operated approximately 57% of our wells, which delivered approximately 85% of our daily production volume. This large percentage of operated properties provides us with a high degree of operating flexibility and cost control.

*Build Regional Scale.* We believe one of the keys to success in the natural gas E&P industry is to build significant operating scale in a limited number of operating areas that share many similar geological and operational characteristics. Achieving such scale provides many benefits, the most important of which are superior geoscientific and engineering information, higher per unit revenues, lower per unit operating costs, greater rates of drilling success, higher returns from more easily integrated acquisitions and higher returns on drilling investments. We first began pursuing this focused strategy in the Mid-Continent region ten years ago and we are now the largest natural gas producer, the most active driller and the most active acquirer of leasehold and producing properties in the Mid-Continent. We believe this region, which trails only the Gulf Coast and Rocky Mountains in current U.S. natural gas production, has many attractive characteristics. These characteristics include long-lived natural gas properties with predictable decline curves, multi-pay geological targets that decrease drilling risk and have resulted in a drilling success rate of 97% over the past 18 years, generally lower service costs than in more competitive or more remote basins and a favorable regulatory environment with virtually no federal land ownership. We believe the other areas where we operate possess many of these same favorable characteristics and our goal is to become or remain a top three natural gas producer in each of our operating areas.

*Improve our Balance Sheet.* We have made significant progress in improving our balance sheet over the past ten years. During that time, we increased our stockholders' equity by \$12 billion through a combination of earnings and common and preferred equity issuances. As of June 30, 2007, our debt as a percentage of total capitalization (total capitalization is the sum of debt and stockholders' equity) was 45%, compared to 137% as of December 31, 1998.

We believe that demand for natural gas will continue to increase in the U.S. and around the world as a result of its favorable environmental characteristics and relative abundance, especially when compared to oil, which is in increasingly short supply, and coal, which has many unfavorable environmental characteristics. As a result, we anticipate that our focused natural gas acquisition, exploitation and exploration strategy should continue providing substantial value-creating growth opportunities for our investors in the years ahead. Our goal is to increase our oil and natural gas production by 18% to 22% in 2007 and 14% to 18% in 2008.

### **Company Strengths**

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

*High-Quality Asset Base.* Our producing properties are characterized by long-lived reserves, established production profiles and an emphasis on onshore natural gas. Based upon current production and proved reserve

## **Table of Contents**

estimates, our proved reserves-to-production ratio, or reserve life, is approximately 15.7 years. In addition, we believe we are the third largest producer of natural gas in the U.S. (first among independents). In each of our operating areas, our properties are concentrated in locations that enable us to establish substantial economies of scale in drilling and production operations and facilitate the application of more effective reservoir management practices. We intend to continue building our asset base in each of our operating areas through a balance of acquisitions, exploitation and exploration.

*Large Inventory of Drilling Projects.* During the 18 years since our inception, we have been the most active driller of new wells in the U.S. and presently, we remain the most active driller in the U.S. with 157 operated and 105 non-operated rigs drilling. Through this high level of activity over the years, we have developed an industry-leading expertise in drilling deep vertical and horizontal wells in search of large natural gas reserves in conventional and unconventional reservoirs. As a result of our successful acquisition program and active leasehold acquisition and seismic acquisition strategies, we have been able to accumulate a U.S. onshore leasehold position of approximately 12.2 million net acres, and have acquired rights to 17.7 million acres of onshore 3-D seismic data to provide informational advantages over our competitors and to help evaluate our large acreage inventory. On this very large acreage position, we believe we have approximately 28,500 net exploratory and developmental drilling locations, representing a backlog of approximately 10 years of future drilling opportunities at current drilling rates.

*Successful Acquisition Program.* Our experienced acquisitions team focuses on enhancing and expanding our existing assets in each of our operating areas. These areas are characterized by long-lived natural gas reserves, low lifting costs, multiple geological targets, generally favorable basis differentials to benchmark commodity prices, well-developed oil and natural gas transportation infrastructures and considerable potential for further consolidation of assets. During the past ten years, we have acquired approximately 6.7 tcf of proved reserves that replaced approximately 250% of our total production. We believe we are well-positioned to continue making attractive acquisitions as a result of our extensive track record of identifying, completing and integrating multiple successful acquisitions, our large operating scale and our knowledge and experience in the regions in which we operate. However, our present focus is on making smaller tactical acquisitions around our existing assets instead of the larger strategic acquisitions we have focused on in the past.

*Low-Cost Producer.* Our high-quality asset base, the work ethic of our employees, our hands-on management style and our headquarters location in Oklahoma City have enabled us to achieve a low operating and administrative cost structure. During the first half of 2007, our operating costs per unit of production were \$1.53 per mcf, which consisted of general and administrative expenses of \$0.33 per mcf (including non-cash stock-based compensation of \$0.07 per mcf), production expenses of \$0.91 per mcf and production taxes of \$0.29 per mcf. We believe this is one of the lowest cost structures among publicly-traded, large-cap independent oil and natural gas producers. We also believe that oil and natural gas leasehold costs will continue to rise in the U.S. Our industry-leading leasehold inventory, built through heavy investment during the past ten years, provides us a continuing cost advantage relative to competitors that are more recent large-scale acquirers of leasehold.

*Effective Hedging Program.* We have used and intend to continue using hedging programs to reduce the risks inherent in acquiring and producing oil and natural gas reserves, commodities that are frequently characterized by significant price volatility. We believe this price volatility is likely to continue in the years ahead and that we can use this volatility to our benefit by taking advantage of prices when they reach levels that management believes are either unsustainable for the long-term or provide unusually high rates of return on our invested capital. We currently have natural gas swaps in place covering 59% and 64% of our anticipated natural gas production for the remainder of 2007 and 2008, respectively, at average NYMEX prices of \$8.66 and \$9.22 per mcf, respectively, along with natural gas collars covering 12% of our anticipated natural gas production for



**Table of Contents**

the remainder of 2007 with an average NYMEX floor of \$6.94 per mcf and an average NYMEX ceiling of \$8.52 per mcf. Certain open natural gas swap positions include knockout swaps with knockout provisions at prices ranging from \$5.25 to \$6.50 in 2007 and \$5.75 to \$6.50 in 2008. Additionally, we have written call options covering 15% and 14% of our remaining 2007 and 2008 natural gas production, respectively, at a weighted average price of \$9.45 and \$10.39 per mcf, respectively. We have oil swaps in place covering 73% and 74% of our anticipated oil production for the remainder of 2007 and 2008, respectively, at average NYMEX prices of \$71.59 and \$72.77 per barrel of oil, respectively. Certain open oil swap positions include cap-swaps and knockout swaps with provisions limiting the counterparty's exposure below prices ranging from \$45.00 to \$60.00 in both 2007 and 2008. During the first half of 2007, we realized gains from our hedging program of approximately \$631 million which increased our realized price per mcf by \$1.95.

*Entrepreneurial Management.* Our management team formed the company in 1989 with an initial capitalization of \$50,000 and fewer than ten employees. Since then, our management team has guided the company through various operational and industry challenges and extremes of oil and natural gas prices to create the largest independent producer of natural gas in the U.S. with approximately 5,800 employees and an enterprise value of approximately \$30 billion. Our chief executive officer and co-founder, Aubrey K. McClendon, has been in the oil and natural gas industry for 27 years and beneficially owns, as of August 1, 2007, approximately 27 million shares of our common stock.

**Table of Contents**

**THE OFFERING**

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

|                     |   |
|---------------------|---|
| Issuer              | Chesapeake Energy Corporation.  |
| Notes Offered       | \$500,000,000 in aggregate principal amount of 2.500% Contingent Convertible Senior Notes due 2037; \$575,000,000 if the underwriter exercises its over-allotment option in full. The notes are being offered as additional securities under an indenture pursuant to which we issued \$1,150,000,000 aggregate principal amount of 2.500% contingent convertible senior notes on May 15, 2007. The notes offered hereby and the notes issued in May 2007 will be treated as a single class of notes under the indenture. The notes offered hereby, however, will not be fungible for U.S. federal income tax purposes with the previous notes and, as a result, will not have the same CUSIP number as and will not trade interchangeably with the previous notes.                     |
| Maturity Date       | May 15, 2037.   |
| Interest            | Interest on the notes will accrue at an annual rate of 2.500%. Interest will be paid semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2007.  |
| Contingent Interest | We will pay additional interest, referred to in this prospectus supplement as <b>contingent interest</b> , during any six-month period from May 15 to November 14 or from November 15 to May 14, commencing with the six-month period ending November 14, 2017, if the average trading price of the notes for the five trading-day period ending on the third day immediately preceding the relevant six-month period equals or exceeds 120% of the principal amount of the notes. The amount of contingent interest payable per note in respect of any six-month period will be equal to 0.50% per annum of the average trading price of the notes during the applicable five trading-day period. See <b>Description of Notes</b> <b>Contingent Interest</b> .                         |
| Conversion Rights   | Under the circumstances discussed below, you may surrender the notes for conversion, in whole or in part, into cash and, if applicable, shares of our common stock at any time on or before the close of business on May 15, 2037, unless the notes have been previously redeemed or repurchased. You may convert your notes only in the following circumstances:<br><br>prior to May 15, 2035, during any calendar quarter (and only during such calendar quarter) commencing after May 15, 2007, if the Closing Sale Price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 125% of the Base Conversion Price on such last trading day; |

**Table of Contents**

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

during the five consecutive business-day period following any five consecutive trading-day period in which the trading price for the notes for each such trading day was less than 95% of the product of the average of the Closing Sale Prices of our common stock during such five trading-day period and the Applicable Conversion Rate;

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

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

**Conversion Rate**

The Applicable Conversion Rate will be determined as follows:

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

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

$$(\text{Applicable Stock Price} - \text{Base Conversion Price}) \times \text{Incremental Share Factor}$$

Base Conversion Rate +

$$\left[ \frac{\text{Applicable Stock Price}}{\text{Base Conversion Price}} \right]$$

The Base Conversion Price is \$51.5815 (the initial Base Conversion Price of \$51.5850, as adjusted for the payment of a \$0.0675 per share quarterly cash dividend on our common stock in July 2007), subject to further adjustment as described under Description of Notes Conversion Rights Conversion Price Adjustments.

The Base Conversion Rate per \$1,000 principal amount of notes is a number of shares of common stock (approximately 19.3868) determined by dividing \$1,000 by the Base Conversion Price.

The Incremental Share Factor is 9.6934 (the initial Incremental Share Factor of 9.6927, as adjusted for the payment of the quarterly common stock dividend described above), subject to the same proportional adjustment as the Base Conversion Rate, in each case based upon adjustments to the Base Conversion Price.

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

In addition, following certain corporate transactions that occur prior to May 15, 2017 and that also constitute a fundamental change (as defined in this prospectus supplement), we will increase the Applicable Conversion Rate for a holder who elects to convert its notes in connection with such corporate transactions in certain circumstances. See Description of Notes Conversion Rights Adjustment to Shares Delivered Upon Conversion Upon Certain Changes of Control. If such fundamental change also constitutes a

S-7

## Table of Contents

public acquirer change of control (as defined in this prospectus supplement), we may, in lieu of increasing the Applicable Conversion Rate as described above, elect to adjust the related conversion obligation so that the notes are convertible into shares of the acquiring or surviving company. See Description of Notes Conversion Rights Conversion Upon a Public Acquirer Change of Control.

### Conversion Settlement

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

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

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

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

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

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

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

### Guarantees

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

## Table of Contents

|  |   |
|--|---|
| Ranking  | <p>The notes will be unsecured and will rank equally in right of payment to all of our existing and future senior indebtedness. The notes will rank senior in right of payment to all of our future subordinated indebtedness. Holders of our secured indebtedness have claims with respect to our assets constituting collateral for their indebtedness that are prior to your claims under the notes. Please read <a href="#">Description of Notes - Ranking</a>.</p> <p>As of June 30, 2007, we had approximately \$9.6 billion in principal amount of senior indebtedness outstanding, \$1.1 billion of which was indebtedness under our secured revolving bank credit facility. Upon completion of this offering and the ultimate application of net proceeds therefrom as described under <a href="#">Use of Proceeds</a>, on a pro forma basis as of June 30, 2007, we would have had approximately \$9.6 billion in principal amount of senior indebtedness outstanding, \$607 million of which would have been secured. As of August 8, 2007, we had outstanding borrowings of \$2.1 billion under our revolving bank credit facility.</p> |
| Optional Redemption  | <p>We may redeem the notes, in whole at any time, or in part from time to time, on or after May 15, 2017 at a redemption price, payable in cash, of 100% of the principal amount of the notes, plus accrued and unpaid interest (including contingent interest, if any) up to but not including the date of redemption. See <a href="#">Description of Notes - Optional Redemption of the Notes</a>.</p>  |
| Repurchase of Notes at the Option of the Holder                | <p>You may require us to repurchase all or a portion of your notes on May 15, 2017, 2022, 2027 and 2032 at 100% of the principal amount of the notes, plus accrued and unpaid interest (including contingent interest, if any), up to but not including the date of repurchase, payable in cash. See <a href="#">Description of Notes - Repurchase of Notes at the Option of the Holder</a>.</p>  |
| Right to Require Repurchase of Notes Upon a Fundamental Change | <p>If a fundamental change, as that term is defined in <a href="#">Description of Notes - Right to Require Repurchase of Notes Upon a Fundamental Change</a>, occurs, you may require that we repurchase your notes on the date fixed by us that is not less than 30 days nor more than 45 days after we give notice of the fundamental change. We will repurchase the notes for an amount equal to 100% of the principal amount of the notes, plus accrued and unpaid interest (including contingent interest, if any) up to but not including the date of repurchase, payable in cash. See <a href="#">Description of Notes - Right to Require Repurchase of Notes Upon a Fundamental Change</a>.</p>   |
| Sinking Fund   | <p>None.</p>  |
| Use of Proceeds  | <p>We expect the net proceeds to us from this offering, after deducting discounts to the underwriter and estimated expenses of the offering payable by us, to be approximately \$479.1 million. We intend to use the net proceeds from this offering to repay borrowings under our revolving bank credit facility. See <a href="#">Use of Proceeds</a>.</p>   |

## **Table of Contents**

### **Material U.S. Federal Income Tax Considerations**

For United States federal income tax purposes, the notes will be treated as indebtedness subject to the special regulations governing contingent payment debt instruments, which we refer to as the contingent payment debt regulations. Pursuant to the contingent payment debt regulations, a U.S. Holder (as defined under Material U.S. Federal Income Tax Considerations U.S. Holders ) will generally be required to accrue interest income on the notes, subject to certain adjustments, at a rate of 8.0%, compounded semi-annually, regardless of whether the holder uses the cash or accrual method of tax accounting. Accordingly, U.S. Holders will generally be required to include interest in taxable income in each year in excess of any interest payments (whether fixed or contingent) actually received in that year. For this purpose, a conversion of the notes will be treated as the receipt of a contingent payment with respect to the notes, which may produce an adjustment to a U.S. holder's interest accruals. Under the contingent payment debt regulations, gain recognized upon a sale, exchange, or redemption of a note will generally be treated as ordinary interest income; loss will be ordinary loss to the extent of interest previously included in income, and thereafter capital loss.

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

**Table of Contents**

Book-Entry, Delivery and Form

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

Common Stock

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

**RISK FACTORS**

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

S-11



**Table of Contents****Summary Consolidated Financial Data**

The following tables set forth summary consolidated financial data as of and for each of the three years ended December 31, 2006, 2005 and 2004 and six months ended June 30, 2007 and 2006. This data was derived from our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2006 and from our unaudited condensed consolidated financial statements included in our quarterly report on Form 10-Q for the six months ended June 30, 2007, each of which is incorporated by reference herein. The financial data below should be read together with, and are qualified in their entirety by reference to, our historical consolidated financial statements and the accompanying notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations which are set forth in such annual report on Form 10-K and quarterly report on Form 10-Q.

|  | Year Ended December 31,                  |              |              | Six Months Ended June 30, |                 |
|--|--|--------------|--------------|---------------------------|-----------------|
|  | 2006                                     | 2005         | 2004         | 2007                      | 2006            |
|  | (\$ in thousands, except per share data) |              |              |                           |                 |
| Statement of Operations Data:                                |  |              |              |                           |                 |
| Revenues:  |  |              |              |                           |                 |
| Oil and natural gas sales                                    | \$ 5,618,894                             | \$ 3,272,585 | \$ 1,936,176 | \$ 2,672,042              | \$ 2,697,204    |
| Oil and natural gas marketing sales                          | 1,576,391                                | 1,392,705    | 773,092      | 944,983                   | 771,977         |
| Service operations revenue                                   | 130,310                                  |              |              | 67,317                    | 59,402          |
| Total revenues   | 7,325,595                                | 4,665,290    | 2,709,268    | 3,684,342                 | 3,528,583       |
| Operating costs:   |  |              |              |                           |                 |
| Production expenses  | 489,499                                  | 316,956      | 204,821      | 295,275                   | 240,089         |
| Production taxes   | 176,440                                  | 207,898      | 103,931      | 95,090                    | 89,296          |
| General and administrative expenses                          | 139,152                                  | 64,272       | 37,045       | 106,707                   | 62,346          |
| Oil and natural gas marketing expenses                       | 1,521,848                                | 1,358,003    | 755,314      | 911,144                   | 747,048         |
| Service operations expense                                   | 67,922                                   |              |              | 44,062                    | 30,104          |
| Oil and natural gas depreciation, depletion and amortization | 1,358,519                                | 894,035      | 582,137      | 835,394                   | 633,116         |
| Depreciation and amortization of other assets                | 104,240                                  | 50,966       | 29,185       | 75,744                    | 47,035          |
| Employee retirement expense                                  | 54,753                                   |              |              |                           | 54,753          |
| Provision for legal settlements                              |  |              | 4,500        |                           |                 |
| Total operating costs  | 3,912,373                                | 2,892,130    | 1,716,933    | 2,363,416                 | 1,903,787       |
| Income from operations                                       | 3,413,222                                | 1,773,160    | 992,335      | 1,320,926                 | 1,624,796       |
| Other income (expense):                                      |  |              |              |                           |                 |
| Interest and other income                                    | 25,463                                   | 10,452       | 4,476        | 10,666                    | 14,610          |
| Interest expense   | (300,722)                                | (219,800)    | (167,328)    | (162,470)                 | (146,114)       |
| Loss on repurchases or exchanges of Chesapeake senior notes  |  | (70,419)     | (24,557)     |                           |                 |
| Gain on sale of investment                                   | 117,396                                  |              |              | 82,705                    | 117,396         |
| Total other income (expense)                                 | (157,863)                                | (279,767)    | (187,409)    | (69,099)                  | (14,108)        |
| Income before income taxes                                   | \$ 3,255,359                             | \$ 1,493,393 | \$ 804,926   | \$ 1,251,827(1)           | \$ 1,610,688(2) |
| Income tax expense (benefit):                                |  |              |              |                           |                 |
| Current  | 5,000                                    |              |              |                           |                 |
| Deferred   | 1,247,036                                | 545,091      | 289,771      | 475,693                   | 627,062         |
| Total income tax expense (benefit)                           | 1,252,036                                | 545,091      | 289,771      | 475,693                   | 627,062         |
| Net income   | 2,003,323                                | 948,302      | 515,155      | 776,134                   | 983,626         |
| Preferred stock dividends                                    | (88,645)                                 | (41,813)     | (39,506)     | (51,672)                  | (37,040)        |

# Edgar Filing: NOMAC DRILLING CORP - Form 424B2

|  |           |            |            |            |            |
|--|-----------|------------|------------|------------|------------|
| Loss on conversion/exchange of preferred stock | (10,556)  | (26,874)   | (36,678)   |            | (10,556)   |
| Net income available to common shareholders    | 1,904,122 | \$ 879,615 | \$ 438,971 | \$ 724,462 | \$ 936,030 |
| Earnings per common share basic                | 4.78      | \$ 2.73    | \$ 1.73    | \$ 1.60    | \$ 2.50    |
| Earnings per common share assuming dilution:   | \$ 4.35   | \$ 2.51    | \$ 1.53    | \$ 1.51    | \$ 2.27    |
| Cash dividends declared per common share       | \$ 0.23   | \$ 0.195   | \$ 0.17    | \$ 0.1275  | \$ 0.11    |

S-12

## Table of Contents

|   | Year Ended December 31, |               |              | Six Months Ended June 30, |               |
|---|-------------------------|---------------|--------------|---------------------------|---------------|
|   | 2006                    | 2005          | 2004         | 2007                      | 2006          |
| (\$ in thousands, except per share data)                          |                         |               |              |                           |               |
| <b>Cash Flow Data:</b>  |                         |               |              |                           |               |
| Cash provided by operating activities:                            | \$ 4,843,474            | \$ 2,406,888  | \$ 1,432,274 | \$ 2,121,900              | \$ 2,045,144  |
| Cash used in investing activities                                 | 8,942,499               | 6,921,378     | 3,381,204    | 4,003,037                 | 3,784,057     |
| Cash provided by financing activities                             | 4,041,517               | 4,567,621     | 1,915,245    | 1,882,488                 | 2,045,156     |
| <b>Other Financial Data:</b>                                      |                         |               |              |                           |               |
| Ratio of earnings to fixed charges(3)(4)                          | 7.3x                    | 5.6x          | 4.8x         | 4.8x                      | 7.9x          |
| Ratio of earnings to fixed charges and preference dividends(3)(4) | 5.6x                    | 4.6x          | 3.7x         | 3.7x                      | 6.2x          |
| Ratio of total debt to EBITDA                                     | 1.5x                    | 2.1x          | 1.9x         |                           |               |
| EBITDA(5)   | \$ 5,018,840            | \$ 2,658,194  | \$ 1,583,576 | \$ 2,325,435              | \$ 2,436,953  |
| <b>Balance Sheet Data:</b>  |                         |               |              |                           |               |
| Total assets  | \$ 24,417,167           | \$ 16,118,462 | \$ 8,244,509 | \$ 27,695,746             | \$ 20,061,051 |
| Long-term debt, net   | 7,375,548               | 5,489,742     | 3,075,109    | 9,416,650                 | 6,330,115     |
| Stockholders' equity  | 11,251,471              | 6,174,323     | 3,162,883    | 11,626,165                | 8,990,186     |

- (1) Includes an unrealized mark-to-market pre-tax loss of \$152 million resulting from our oil and natural gas and interest rate hedging programs.
- (2) Includes an unrealized mark-to-market pre-tax gain of \$212 million from our oil and natural gas and interest rate hedging programs.
- (3) For purposes of determining the ratios of earnings to fixed charges and earnings to fixed charges and preference dividends, earnings are defined as net income before income taxes, cumulative effect of accounting changes, pretax gain or loss of equity investees, amortization of capitalized interest and fixed charges, less capitalized interest. Fixed charges consist of interest (whether expensed or capitalized and excluding the effect of unrealized gains or losses on interest rate derivatives), and amortization of debt expenses and discount or premium relating to any indebtedness. Preference dividends consist of preferred stock dividends grossed up to reflect the pre-tax amount.
- (4) The ratio of earnings to fixed charges for the years ended December 31, 2002 and 2003 was 1.5x and 4.0x, respectively. The ratio of earnings to fixed charges and preference dividends for the years ended December 31, 2002 and 2003 was 1.3x and 3.3x, respectively.
- (5) EBITDA represents net income before income tax expense, interest expense, oil and natural gas depreciation, depletion and amortization and depreciation and amortization of other assets. EBITDA is presented as a supplemental financial measurement in the evaluation of our business. We believe that it provides additional information regarding our ability to meet our future debt service, capital expenditures and working capital requirements. This measure is widely used by investors and rating agencies in the valuation, comparison, rating and investment recommendations of companies. EBITDA is also a financial measurement that, with certain negotiated adjustments, is reported to our lenders pursuant to our revolving bank credit facility and is used in the financial covenants in our revolving bank credit facility and our senior note indentures. EBITDA is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for net income, income from operations or cash flow provided by operating activities prepared in accordance with GAAP. EBITDA is reconciled to net income as follows:

|  | Year Ended December 31, |            |            | Six Months Ended June 30, |            |
|--|-------------------------|------------|------------|---------------------------|------------|
|  | 2006                    | 2005       | 2004       | 2007                      | 2006       |
| Net income   | \$ 2,003,323            | \$ 948,302 | \$ 515,155 | \$ 776,134                | \$ 983,626 |
| Income tax expense   | 1,252,036               | 545,091    | 289,771    | 475,693                   | 627,062    |
| Interest expense   | 300,722                 | 219,800    | 167,328    | 162,470                   | 146,114    |
| Oil and natural gas depreciation, depletion and amortization | 1,358,519               | 894,035    | 582,137    | 835,394                   | 633,116    |
| Depreciation and amortization of other assets                | 104,240                 | 50,966     | 29,185     | 75,744                    | 47,035     |
| EBITDA   | 5,018,840               | 2,658,194  | 1,583,576  | 2,325,435                 | 2,436,953  |

S-13

**Table of Contents****Summary Reserve Information**

The following table sets forth our estimated proved reserves and the present value of the proved reserves as of December 31, 2006 (based on our weighted average wellhead prices at December 31, 2006 of \$56.25 per barrel of oil and \$5.41 per mcf of gas). These prices were based on the cash spot prices for oil and natural gas at December 31, 2006.

|                                  | Oil            | Gas              | Gas<br>Equivalent | Percent of<br>Proved<br>Reserves | Present Value<br>(\$ in thousands) |
|----------------------------------|----------------|------------------|-------------------|----------------------------------|------------------------------------|
|                                  | (mbbl)         | (mmcf)           | (mmcfe)           |                                  |                                    |
| Mid-Continent                    | 52,432         | 3,911,275        | 4,225,867         | 47%                              | 6,948,701                          |
| Forth Worth Barnett Shale        | 91             | 1,140,833        | 1,141,379         | 13                               | 1,310,275                          |
| Appalachian Basin                | 957            | 1,485,446        | 1,491,188         | 17                               | 1,652,134                          |
| Permian and Delaware Basins      | 42,284         | 471,452          | 725,156           | 8                                | 1,495,751                          |
| Ark-La-Tex                       | 5,661          | 677,473          | 711,439           | 8                                | 819,272                            |
| South Texas and Texas Gulf Coast | 4,605          | 632,955          | 660,585           | 7                                | 1,421,008                          |
| <b>Total</b>                     | <b>106,030</b> | <b>8,319,434</b> | <b>8,955,614</b>  | <b>100%</b>                      | <b>13,647,141(a)</b>               |

- (a) Represents the present value, discounted at 10% per annum, of estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs in effect at December 31, 2006, which wellhead prices averaged \$56.25 per barrel of oil and \$5.41 per mcf of natural gas. Our total present value of estimated future net revenue differs from standardized measure of discounted future net cash flows because the former does not include the effects of estimated future income tax expenses of \$3.64 billion as of December 31, 2006. Our standardized measure of discounted future net cash flows at December 31, 2006 was \$10.0 billion.

As of December 31, 2006, the present value of our proved developed reserves as a percentage of total proved reserves was 83%, and the volume of our proved developed reserves as a percentage of total proved reserves was 62%. Natural gas reserves accounted for 93% of the volume of total proved reserves at December 31, 2006.

Future prices and costs may be materially higher or lower than the prices and costs as of the date of any estimate. A change in price of \$0.10 per mcf for natural gas and \$1.00 per barrel for oil would result in a change in our December 31, 2006 present value of proved reserves of approximately \$350 million and \$50 million, respectively.

**Table of Contents****Summary Production, Sales, Prices and Expenses Data**

The following table sets forth certain information regarding the production volumes, oil and gas sales, average sales prices received and expenses associated with sales of natural gas and oil for the periods indicated:

|   | Year Ended December 31, |              |              | Six Months Ended June 30, |              |
|---|-------------------------|--------------|--------------|---------------------------|--------------|
|   | 2006                    | 2005         | 2004         | 2007                      | 2006         |
| <b>Net Production:</b>  |                         |              |              |                           |              |
| Oil (mbbl)  | 8,654                   | 7,698        | 6,764        | 4,467                     | 4,259        |
| Natural gas (mmcf)  | 526,459                 | 422,389      | 322,009      | 296,872                   | 253,874      |
| Natural gas equivalent (mmcfe)  | 578,383                 | 468,577      | 362,593      | 323,674                   | 279,428      |
| <b>Oil and Natural Gas Sales (\$ in thousands):</b>                               |                         |              |              |                           |              |
| Oil sales   | \$ 526,687              | \$ 401,845   | \$ 260,915   | \$ 252,825                | \$ 262,908   |
| Oil derivatives-realized gains (losses)   | (14,875)                | (34,132)     | (69,267)     | 30,107                    | (16,035)     |
| Oil derivatives-unrealized gains (losses)   | 28,459                  | 4,374        | 3,454        | (26,900)                  | (3,899)      |
| Total oil sales   | \$ 540,271              | \$ 372,087   | \$ 195,102   | \$ 256,032                | \$ 242,974   |
| Natural gas sales   | \$ 3,343,056            | \$ 3,231,286 | \$ 1,789,275 | \$ 1,946,642              | \$ 1,714,577 |
| Natural gas derivatives-realized gains (losses)                                   | 1,268,528               | (367,551)    | (85,634)     | 600,423                   | 521,679      |
| Natural gas derivatives-unrealized gains (losses)                                 | 467,039                 | 36,763       | 37,433       | (131,055)                 | 217,974      |
| Total natural gas sales   | \$ 5,078,623            | \$ 2,900,498 | \$ 1,741,074 | \$ 2,416,010              | \$ 2,454,230 |
| Total oil and natural gas sales   | \$ 5,618,894            | \$ 3,272,585 | \$ 1,936,176 | \$ 2,672,042              | \$ 2,697,204 |
| <b>Average Sales Price: (excluding gains (losses) on derivatives):</b>            |                         |              |              |                           |              |
| Oil (\$ per bbl)  | \$ 60.86                | \$ 52.20     | \$ 38.57     | \$ 56.60                  | \$ 61.73     |
| Natural gas (\$ per mcf)  | \$ 6.35                 | \$ 7.65      | \$ 5.56      | \$ 6.56                   | \$ 6.75      |
| Natural gas equivalent (\$ per mcfe)  | \$ 6.69                 | \$ 7.75      | \$ 5.65      | \$ 6.80                   | \$ 7.08      |
| <b>Average Sales Price: (excluding unrealized gains (losses) on derivatives):</b> |                         |              |              |                           |              |
| Oil (\$ per bbl)  | \$ 59.14                | \$ 47.77     | \$ 28.33     | \$ 63.34                  | \$ 57.97     |
| Natural gas (\$ per mcf)  | \$ 8.76                 | \$ 6.78      | \$ 5.29      | \$ 8.58                   | \$ 8.81      |
| Natural gas equivalent (\$ per mcfe)  | \$ 8.86                 | \$ 6.90      | \$ 5.23      | \$ 8.74                   | \$ 8.89      |
| <b>Expenses (\$ per mcfe):</b>  |                         |              |              |                           |              |
| Production expenses   | \$ 0.85                 | \$ 0.68      | \$ 0.56      | \$ 0.91                   | \$ 0.86      |
| Production taxes  | \$ 0.31                 | \$ 0.44      | \$ 0.29      | \$ 0.29                   | \$ 0.32      |
| General and administrative expenses   | \$ 0.24                 | \$ 0.14      | \$ 0.10      | \$ 0.33                   | \$ 0.22      |
| Oil and natural gas depreciation, depletion and amortization                      | \$ 2.35                 | \$ 1.91      | \$ 1.61      | \$ 2.58                   | \$ 2.27      |
| Depreciation and amortization of other assets                                     | \$ 0.18                 | \$ 0.11      | \$ 0.08      | \$ 0.23                   | \$ 0.17      |
| Interest expense(1)   | \$ 0.52                 | \$ 0.47      | \$ 0.45      | \$ 0.52                   | \$ 0.52      |

- (1) Includes the effects of realized gains or (losses) from interest rate derivatives, but does not include the effects of unrealized gains or (losses) and is net of amounts capitalized.

## **Table of Contents**

### **RISK FACTORS**

*In addition to the other information set forth elsewhere or incorporated by reference in this prospectus supplement, the following factors relating to our company and the offering should be considered carefully before making an investment in the notes offered hereby.*

#### **Risks Related to Our Business**

***Oil and natural gas prices are volatile. A decline in prices could adversely affect our financial position, financial results, cash flows, access to capital and ability to grow.***

Our revenues, operating results, profitability and future rate of growth depend primarily upon the prices we receive for the oil and natural gas we sell. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. The amount we can borrow from banks is subject to periodic redeterminations based on prices specified by our bank group at the time of redetermination. In addition, we may have ceiling test write-downs in the future if prices fall significantly.

Historically, the markets for oil and natural gas have been volatile and they are likely to continue to be volatile. Wide fluctuations in oil and natural gas prices may result from relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and other factors that are beyond our control, including:

worldwide and domestic supplies of oil and natural gas;

weather conditions;

the level of consumer demand;

the price and availability of alternative fuels;

the proximity and capacity of natural gas pipelines and other transportation facilities;

the price and level of foreign imports;

domestic and foreign governmental regulations and taxes;

the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;

political instability or armed conflict in oil-producing regions; and

overall domestic and global economic conditions.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and natural gas price movements with any certainty. Declines in oil and natural gas prices would not only reduce revenue, but could reduce the amount of oil and natural gas that we can produce economically and, as a result, could have a material adverse effect on our financial condition, results of operations and reserves. Further,

## Edgar Filing: NOMAC DRILLING CORP - Form 424B2

oil and natural gas prices do not necessarily move in tandem. Because approximately 93% of our reserves at December 31, 2006 were natural gas reserves, we are more affected by movements in natural gas prices.

***Our level of indebtedness may limit our financial flexibility.***

As of June 30, 2007, we had long-term indebtedness of approximately \$9.4 billion, with \$1.1 billion of outstanding borrowings drawn under our revolving bank credit facility. Our long-term indebtedness represented 45% of our total book capitalization at June 30, 2007. As of August 8, 2007, we had approximately \$2.1 billion outstanding under our revolving bank credit facility.

S-16



## **Table of Contents**

Our level of indebtedness and preferred stock affects our operations in several ways, including the following:

a portion of our cash flows from operating activities must be used to service our indebtedness and pay dividends on our preferred stock and is not available for other purposes;

we may be at a competitive disadvantage as compared to similar companies that have less debt;

the covenants contained in the agreements governing our outstanding indebtedness and future indebtedness may limit our ability to borrow additional funds, pay dividends and make certain investments and may also affect our flexibility in planning for, and reacting to, changes in the economy and in our industry;

additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and more restrictive covenants;

changes in the credit ratings of our debt may negatively affect the cost, terms, conditions and availability of future financing, and lower ratings will increase the interest rate and fees we pay on our revolving bank credit facility; and

we may be more vulnerable to general adverse economic and industry conditions.

We may incur additional debt, including significant secured indebtedness, or issue additional series of preferred stock in order to make future acquisitions or to develop our properties. A higher level of indebtedness and/or additional preferred stock increases the risk that we may default on our obligations. Our ability to meet our debt obligations and to reduce our level of indebtedness depends on our future performance. General economic conditions, oil and natural gas prices and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. We may not be able to generate sufficient cash flow to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. Factors that will affect our ability to raise cash through an offering of our capital stock or a refinancing of our debt include financial market conditions, the value of our assets and our performance at the time we need capital.

In addition, our bank borrowing base is subject to periodic redetermination. A lowering of our borrowing base could require us to repay indebtedness in excess of the borrowing base, or we might need to further secure the lenders with additional collateral.

***Competition in the oil and natural gas industry is intense, and many of our competitors have greater financial and other resources than we do.***

We operate in the highly competitive areas of oil and natural gas acquisition, development, exploitation, exploration and production. We face intense competition from both major and other independent oil and natural gas companies in each of the following areas:

seeking to acquire desirable producing properties or new leases for future exploration; and

seeking to acquire the equipment and expertise necessary to develop and operate our properties.

Many of our competitors have financial and other resources substantially greater than ours, and some of them are fully integrated oil companies. These companies may be able to pay more for development prospects and productive oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. Our ability to develop and exploit our oil and natural gas properties and to acquire additional properties in the future will depend upon our ability to successfully conduct operations, evaluate and select suitable properties and consummate transactions in this highly competitive environment.

S-17

## **Table of Contents**

### ***Significant capital expenditures are required to replace our reserves.***

Our exploration, development and acquisition activities require substantial capital expenditures. Historically, we have funded our capital expenditures through a combination of cash flows from operations, our revolving bank credit facility and debt and equity issuances. We believe our cash flow from operations is not sufficient to fund our 2007 capital expenditure budget. Additionally, future cash flows are subject to a number of variables, such as the level of production from existing wells, prices of oil and natural gas, and our success in developing and producing new reserves. If revenues were to decrease as a result of lower oil and natural gas prices or decreased production, and our access to capital were limited, we would have a reduced ability to replace our reserves. We may need to reduce our planned capital expenditures if we are not be able to access additional bank debt, debt or equity or other methods of financing on an economic basis to meet these requirements.

### ***If we are not able to replace reserves, we may not be able to sustain production.***

Our future success depends largely upon our ability to find, develop or acquire additional oil and natural gas reserves that are economically recoverable. Unless we replace the reserves we produce through successful development, exploration or acquisition activities, our proved reserves and production will decline over time. In addition, approximately 38% of our total estimated proved reserves (by volume) at December 31, 2006 were undeveloped. By their nature, estimates of undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. Our reserve estimates reflect that our production rate on producing properties will decline approximately 25% from 2007 to 2008. Thus, our future oil and natural gas reserves and production and, therefore, our cash flow and income are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves.

### ***The actual quantities and present value of our proved reserves may prove to be lower than we have estimated.***

This prospectus supplement, the accompanying prospectus and the information incorporated herein and therein contain estimates of our proved reserves and the estimated future net revenues from our proved reserves. These estimates are based upon various assumptions, including assumptions required by the SEC relating to oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating oil and natural gas reserves is complex. The process involves significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. Therefore, these estimates are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from these estimates. Such variations may be significant and could materially affect the estimated quantities and present value of our proved reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development drilling, prevailing oil and natural gas prices and other factors, many of which are beyond our control. Our properties may also be susceptible to hydrocarbon drainage from production by operators on adjacent properties.

At December 31, 2006, approximately 38% of our estimated proved reserves (by volume) were undeveloped. Recovery of undeveloped reserves requires significant capital expenditures and successful drilling operations. These reserve estimates include the assumption that we will make significant capital expenditures to develop the reserves, including approximately \$2.7 billion in 2007. You should be aware that the estimated costs may not be accurate, development may not occur as scheduled and results may not be as estimated.

You should not assume that the present values referred to in this prospectus supplement, the accompanying prospectus and the information incorporated herein and therein represent the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, the estimates of our present values are based on prices and costs as of the date of the estimates. The December 31, 2006 present value is based on

---

## **Table of Contents**

weighted average oil and natural gas wellhead prices of \$56.25 per barrel of oil and \$5.41 per mcf of natural gas. Actual future prices and costs may be materially higher or lower than the prices and costs as of the date of an estimate.

Any changes in consumption by oil and natural gas purchasers or in governmental regulations or taxation will also affect actual future net cash flows.

The timing of both the production and the expenses from the development and production of oil and natural gas properties will affect both the timing of actual future net cash flows from our proved reserves and their present value. In addition, the 10% discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most accurate discount factor. The effective interest rate at various times and the risks associated with our business or the oil and natural gas industry in general will affect the accuracy of the 10% discount factor.

### ***Acquisitions may prove to be worth less than we paid because of uncertainties in evaluating recoverable reserves and potential liabilities.***

Our growth during the past few years is due in large part to acquisitions of exploration and production companies, producing properties and undeveloped leasehold. We expect acquisitions will also contribute to our future growth. Successful acquisitions require an assessment of a number of factors, including estimates of recoverable reserves, exploration potential, future oil and natural gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain. In connection with our assessments, we perform a review of the acquired properties which we believe is generally consistent with industry practices. However, such a review will not reveal all existing or potential problems. In addition, our review may not permit us to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. We do not inspect every well. Even when we inspect a well, we do not always discover structural, subsurface and environmental problems that may exist or arise. As a result of these factors, the purchase price we pay to acquire oil and natural gas properties may exceed the value we realize.

We are generally not entitled to contractual indemnification for preclosing liabilities, including environmental liabilities. Normally, we acquire interests in properties on an "as is" basis with limited remedies for breaches of representations and warranties. When we make entity acquisitions, we may have transferee liability that is not fully indemnified. Our acquisition of Columbia Natural Resources, LLC (CNR) in November 2005 was made subject to claims which are covered in part by the indemnification of a prior owner, NiSource Inc. NiSource and Chesapeake are co-defendants in a class action lawsuit brought by royalty owners in West Virginia in which the jury returned a verdict in January 2007 awarding plaintiffs \$404 million, consisting of \$134 million in compensatory damages and \$270 million in punitive damages. Although Chesapeake believes its share of damages that might ultimately be awarded in this case will not have a material adverse effect on its results of operations, financial condition or liquidity as a result of the NiSource indemnity and post-trial remedies that may be available, Chesapeake is a defendant in other cases involving acquired companies where it may have no, or only limited, indemnification rights. In any such actions we could incur significant liability.

### ***As new owners, we may not effectively consolidate and integrate acquired operations, particularly when we make significant acquisitions outside our historical operating areas.***

Significant acquisitions present operational and administrative challenges that may prove more difficult than anticipated. The failure to consolidate functions and integrate procedures, personnel and operations in an effective and timely manner may adversely affect our business and results of operations, at least temporarily. Significant acquisitions can change the nature of our operations and business depending upon the character of the acquired properties, which may have substantially different operating and geological characteristics or be in different geographic locations than our existing properties. To the extent that we acquire properties substantially different from the properties in our primary operating areas or acquire properties that require different technical expertise, we may not be able to realize the economic benefits of these acquisitions as efficiently as in our prior acquisitions.

## **Table of Contents**

### ***Exploration and development drilling may not result in commercially productive reserves.***

We do not always encounter commercially productive reservoirs through our drilling operations. The new wells we drill or participate in may not be productive and we may not recover all or any portion of our investment in wells we drill or participate in. The seismic data and other technologies we use do not allow us to know conclusively prior to drilling a well that oil or natural gas is present or may be produced economically. The cost of drilling, completing and operating a well is often uncertain, and cost factors can adversely affect the economics of a project. Our efforts will be unprofitable if we drill dry wells or wells that are productive but do not produce enough reserves to return a profit after drilling, operating and other costs. Further, our drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

increases in the cost of, or shortages or delays in the availability of, drilling rigs and equipment;

unexpected drilling conditions;

title problems;

pressure or irregularities in formations;

equipment failures or accidents;

adverse weather conditions; and

compliance with environmental and other governmental requirements.

### ***Future price declines may result in a write-down of our asset carrying values.***

We utilize the full-cost method of accounting for costs related to our oil and natural gas properties. Under this method, all such costs (for both productive and nonproductive properties) are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the unit-of-production method. However, these capitalized costs are subject to a ceiling test which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and natural gas reserves discounted at 10% plus the lower of cost or market value of unproved properties. The full-cost ceiling is evaluated at the end of each quarter using the prices for oil and natural gas at that date, adjusted for the impact of derivatives accounted for as cash flow hedges. A significant decline in oil and natural gas prices from current levels, or other factors, without other mitigating circumstances, could cause a future writedown of capitalized costs and a non-cash charge against future earnings.

Our ceiling test calculation as of December 31, 2006 indicated an impairment of our oil and natural gas properties of approximately \$500 million, net of income tax. However, natural gas prices subsequent to December 31, 2006 improved sufficiently to eliminate this calculated impairment. As a result, we were not required to record a write-down of our oil and natural gas properties under the full-cost method of accounting. At June 30, 2007, our ceiling test calculation indicated no impairment of our oil and natural gas properties. However, a decline in natural gas prices or the occurrence of other factors beyond our control could result in an impairment in future periods.

### ***Our hedging activities may reduce the realized prices received for our oil and natural gas sales, impact our earnings and require us to provide collateral for hedging liabilities.***

In order to manage our exposure to price volatility in marketing our oil and natural gas, we enter into oil and natural gas price risk management arrangements for a portion of our expected production. Commodity price hedging may limit the prices we actually realize and therefore reduce oil and natural gas revenues in the future. Our hedging activities will impact our earnings in various ways, including recognition of certain

## Edgar Filing: NOMAC DRILLING CORP - Form 424B2

mark-to-market gains and losses on derivative instruments. The fair value of our oil and gas derivative instruments can fluctuate significantly between periods. For example, the fair value of our oil and natural gas derivative instruments outstanding as of June 30, 2007 was a liability of \$23 million as compared to an asset of \$345 million as of

S-20

## **Table of Contents**

December 31, 2006. In addition, our commodity price risk management transactions may expose us to the risk of financial loss in certain circumstances, including instances in which:

our production is less than expected;

there is a widening of price differentials between delivery points for our production and the delivery point assumed in the hedge arrangement; or

the counterparties to our contracts fail to perform under the contracts.

All but two of our commodity price risk management counterparties require us to provide assurances of performance in the event that the counterparties' mark-to-market exposure to us exceeds certain levels. Most of these arrangements allow us to minimize the potential liquidity impact of significant mark-to-market fluctuations by making collateral allocations from our revolving bank credit facility or directly pledging oil and natural gas properties, rather than posting cash or letters of credit with the counterparties. Future collateral requirements are uncertain, however, and will depend on the arrangements with our counterparties and highly volatile natural gas and oil prices.

### ***Lower oil and natural gas prices could negatively impact our ability to borrow.***

Our revolving bank credit facility limits our borrowings to the lesser of the borrowing base and the total commitments (currently both are \$2.5 billion). The borrowing base is determined periodically at the discretion of the banks and is based in part on oil and natural gas prices. Additionally, some of our indentures contain covenants limiting our ability to incur indebtedness in addition to that incurred under our revolving bank credit facility. These indentures limit our ability to incur additional indebtedness unless we meet one of two alternative tests. The first alternative is based on our adjusted consolidated net tangible assets (as defined in all of our indentures), which is determined using discounted future net revenues from proved oil and natural gas reserves as of the end of each year. The second alternative is based on the ratio of our adjusted consolidated EBITDA (as defined in the relevant indentures) to our adjusted consolidated interest expense over a trailing twelve-month period. Currently, we are permitted to incur significant additional indebtedness under the second incurrence test. Lower oil and natural gas prices in the future could reduce our adjusted consolidated EBITDA, as well as our adjusted consolidated net tangible assets, and thus could reduce our ability to incur additional indebtedness.

### ***Oil and natural gas drilling and producing operations can be hazardous and may expose us to environmental liabilities.***

Oil and natural gas operations are subject to many risks, including well blowouts, cratering and explosions, pipe failures, fires, formations with abnormal pressures, uncontrollable flows of oil, natural gas, brine or well fluids, and other environmental hazards and risks. Our drilling operations involve risks from high pressures and from mechanical difficulties such as stuck pipes, collapsed casings and separated cables. If any of these risks occurs, we could sustain substantial losses as a result of:

injury or loss of life;

severe damage to or destruction of property, natural resources and equipment;

pollution or other environmental damage;

clean-up responsibilities;

## Edgar Filing: NOMAC DRILLING CORP - Form 424B2

regulatory investigations and administrative, civil and criminal penalties; and

injunctions resulting in limitation or suspension of operations.

There is inherent risk of incurring significant environmental costs and liabilities in our exploration and production operations due to our generation, handling, and disposal of materials, including wastes and petroleum hydrocarbons. We may incur joint and several, strict liability under applicable U.S. federal and state

S-21



## **Table of Contents**

environmental laws in connection with releases of petroleum hydrocarbons and other hazardous materials on, under or from our leased or owned properties, some of which have been used for oil and natural gas exploration and production activities for a number of years, often by third parties not under our control. While we may maintain insurance against some, but not all, of the risks described above, our insurance may not be adequate to cover casualty losses or liabilities. Also, in the future we may not be able to obtain insurance at premium levels that justify its purchase.

In addition, recent studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases, may be contributing to warming of the Earth's atmosphere. Methane, a primary component of natural gas, and carbon dioxide, a byproduct of the burning of natural gas, are examples of greenhouse gases. In response to such studies, the U.S. Congress is actively considering legislation to reduce emissions of greenhouse gases. In addition, at least nine states in the Northeast and five states in the West including New Mexico have declined to wait on Congress to develop and implement climate control legislation and have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Also, as a result of the U.S. Supreme Court's decision on April 2, 2007 in *Massachusetts, et al. v. EPA*, the U.S. Environmental Protection Agency or EPA must reconsider whether it is required to regulate greenhouse gas emissions from mobile sources (e.g., cars and trucks) even if Congress does not adopt new legislation specifically addressing emissions of greenhouse gases. The Court's holding in *Massachusetts* that greenhouse gases fall under the federal Clean Air Act's definition of air pollutant may also result in future regulation of greenhouse gas emissions from stationary sources under certain Clean Air Act programs. Passage of climate control legislation or other regulatory initiatives by Congress or various states of the U.S. or the adoption of regulations by the EPA or analogous state agencies that restrict emissions of greenhouse gases including methane or carbon dioxide in areas in which we conduct business could have an adverse affect on our operations and demand for our products.

***A portion of our oil and gas production may be subject to interruptions that could temporarily adversely affect our cash flow.***

A portion of our regional oil and gas production may be interrupted, or shut in, from time to time for numerous reasons, including the results of weather conditions, accidents, loss of pipeline or gathering system access, field labor issues or strikes, or intentionally as a result of market conditions. If a substantial amount of our production is interrupted at the same time, it could temporarily adversely affect our cash flow.

## **Risks Related to the Notes**

***Holders of the notes will be effectively subordinated to all of our and our subsidiaries' secured indebtedness.***

Holders of our secured indebtedness, which is comprised primarily of the indebtedness under our revolving bank credit facility, have claims with respect to our assets constituting collateral for their indebtedness that are prior to your claims under the notes. In the event of a default on the notes or our bankruptcy, liquidation or reorganization, those assets would be available to satisfy obligations with respect to the indebtedness secured thereby before any payment could be made on the notes. Accordingly, the secured indebtedness would effectively be senior to the notes to the extent of the value of the collateral securing the indebtedness. The indenture under which the notes will be issued does not limit our ability to incur additional indebtedness or to secure indebtedness without equally and ratably securing the notes. To the extent the value of the collateral is not sufficient to satisfy the secured indebtedness, the holders of that indebtedness would be entitled to share with the holders of the 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 notes will be structurally subordinated to any indebtedness of a subsidiary that is not a Subsidiary Guarantor.

## **Table of Contents**

*A guarantee could be voided if the guarantor fraudulently transferred the guarantee at the time it incurred the indebtedness, which could result in the noteholders being able to rely on only us to satisfy claims.*

Under U.S. bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee can be voided, or claims under a guarantee 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:

intended to hinder, delay or defraud any present or future creditor or received less than reasonably equivalent value or fair consideration for the incurrence of the guarantee;

was insolvent or rendered insolvent by reason of such incurrence;

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.

In addition, any payment by that guarantor under a guarantee could be voided and required to be returned to the guarantor or to a fund for the benefit of the creditors of 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, was greater than the fair saleable value of all of its assets;

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

it could not pay its debts as they became due.

On the basis of historical financial information, recent operating history and other factors, we believe that the subsidiary guarantees are being incurred for proper purposes and in good faith and that each subsidiary guarantor, after giving effect to its guarantee of the notes, will not be insolvent, have unreasonably small capital for the business in which it is engaged or have incurred debts beyond its ability to pay those debts as they mature. We cannot be certain, however, that a court would agree with our conclusions in this regard.

### ***You may find it difficult to sell your notes.***

There is no existing trading market for the notes issued in this offering. Although the notes are being issued as additional securities under an indenture pursuant to which we issued \$1.15 billion aggregate principal amount of 2.500% contingent convertible senior notes on May 15, 2007, the notes are not fungible for U.S. federal income tax purposes with those previously issued notes, and as a result, will not trade interchangeably with, and may trade at different prices than, those previously issued notes. Although the underwriter has indicated that it intends to make a market in the notes, it is not obligated to do so and any of its market making activities may be terminated or limited at any time. In addition, although we have registered the offer and sale of the notes under the Securities Act of 1933 and intend to apply for a listing of the notes offered hereby on the New York Stock Exchange, there can be no assurance as to the liquidity of markets that may develop for the notes, the ability of noteholders to sell their notes or the prices at which notes could be sold. The notes may trade at prices that are lower than their initial purchase price depending on many factors, including prevailing interest rates and the markets for similar securities. The liquidity of trading markets for the notes may also be adversely affected by general declines or disruptions in the markets for debt securities. Those market declines or disruptions could adversely affect the liquidity of and market for the notes independent of our financial performance or prospects. An active

## Edgar Filing: NOMAC DRILLING CORP - Form 424B2

market for the notes may not develop or, if developed, may not continue. In the absence of an active trading market, you may not be able to transfer the notes within the time or at the price you desire.

S-23

## **Table of Contents**

***Upon conversion of the notes, you may receive less proceeds than expected because the value of our common stock may decline between the day that you exercise your conversion right and the day the value of your shares is determined.***

The conversion value that you will receive upon conversion of your notes, other than in connection with a redemption of the notes, is in part determined by the daily closing price per share of our common stock on the New York Stock Exchange for the twenty consecutive trading days beginning on the second trading day after a notice of conversion in respect of the notes is delivered to the conversion agent. Accordingly, if the price of our common stock decreases after you give notice of conversion, the conversion value you receive may be adversely affected.

***Your right to convert the notes is conditional, which could impair the value of the notes.***

The notes are convertible only if specified conditions are met. If the specified conditions for conversion are not met, you will not be able to convert your notes, and you may not be able to receive the value of the cash and shares into which the notes would otherwise be convertible. In addition, upon conversion of the notes, we will not be required to deliver cash or issue shares to satisfy our conversion obligation until three business days after the twenty-day period during which the value is determined. As a result, the value of your notes surrendered for conversion will be subject to market risk pending settlement.

***We may be unable to repurchase your notes as required under the indenture upon a fundamental change or on the specified dates at the option of the holder or pay you cash upon conversion of your notes.***

Upon a fundamental change, as defined in the indenture, and on May 15, 2017, 2022, 2027 and 2032, you will have the right to require us to repurchase your notes for cash. In addition, upon conversion of the notes, you will have the right to receive a cash payment. If we do not have sufficient funds to pay the repurchase price for all of the notes you tender upon a fundamental change, the cash due upon repurchases of the notes on May 15, 2017, 2022, 2027 and 2032 or the cash due upon conversion, an event of default under the indenture governing the notes would occur as a result of such failure. In addition, cash payments in respect of notes that you tender for repurchase or that you convert may be subject to limits and might be prohibited, or create an event of default, under our revolving bank credit facility or other agreements relating to borrowings that we may enter into from time to time. Our failure to make cash payments in respect of the notes could result in an event of default under such agreements. Such other borrowings may be secured indebtedness and may prevent us from making cash payments in respect of the notes under certain circumstances. Our inability to pay for your notes that are tendered for repurchase or conversion could result in your receiving substantially less than the principal amount of the notes. See Description of Notes Repurchase of Notes at the Option of the Holder, Right to Require Repurchase of Notes Upon a Fundamental Change and Payment Upon Conversion.

***The adjustment to the conversion rate for notes converted in connection with certain changes of control may not adequately compensate holders for the lost option time value of their notes as a result of such change of control and may not be enforceable.***

If certain changes of control occur on or prior to May 15, 2017, we will increase the Applicable Conversion Rate as to the notes converted in connection with the changes of control. The increase in the Applicable Conversion Rate will be determined based on the date on which the change of control becomes effective and the price paid per share of common stock in the change of control as described under Description of Notes Conversion Rights Adjustment to Shares Delivered Upon Conversion Upon Certain Changes of Control. While this adjustment is designed to compensate you for the lost option time value of your notes as a result of certain changes of control, the adjustment is only an approximation of such lost value and may not adequately compensate you for such loss. In addition, if the price paid per share of our common stock in the change of control is less than \$34.3876 (the initial minimum price of \$34.39, as adjusted for the payment of a \$0.0675 per share quarterly cash dividend on our common stock in July 2007) or more than \$199.9863 (the initial maximum price of \$200.00, as adjusted for the payment of such quarterly common stock dividend), in each case, subject to further adjustment, or if we exercise our right to cause the conversion obligation to be assumed by a public acquirer as described in Description of Notes Conversion Rights Conversion Upon a Public Acquirer Change in Control, there will be no such adjustment. Furthermore, our obligation to make the adjustment could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

## **Table of Contents**

### ***Provisions of the notes could discourage an acquisition of us by a third party.***

Certain provisions of the notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes in integral multiples of \$1,000 in cash at a price equal to 100% of the principal amount of notes to be repurchased, plus accrued and unpaid interest (including contingent interest, if any) to, but excluding, the repurchase date. In addition, pursuant to the terms of the notes, we may not enter into certain mergers unless, among other things, the surviving entity assumes all of our obligations under the indenture and the notes.

### ***Conversion of the notes could dilute the ownership of existing stockholders.***

The conversion of some or all of the notes could dilute the ownership interests of existing stockholders to the extent that shares of our common stock are issued upon conversion. Any sales in the public market of the common stock that may be issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common stock.

### ***You should consider the U.S. federal income tax consequences of owning the notes.***

Under the indenture governing the notes, we will agree, and by acceptance of a beneficial interest in a note each holder of a note will be deemed to have agreed, to treat the notes as indebtedness for U.S. federal income tax purposes that is subject to the Treasury regulations governing contingent payment debt instruments. For U.S. federal income tax purposes, interest income on the notes will accrue at the rate of 8.0% per year, payable semiannually, which rate represents our determination of the yield at which we could issue a comparable noncontingent, non-convertible, fixed-rate debt instrument with terms and conditions otherwise similar to the notes. A U.S. Holder (as that term is defined in Material U.S. Federal Income Tax Considerations ) will be required to accrue interest income on a constant yield to maturity basis at this rate (subject to certain adjustments), with the result that a U.S. Holder generally will recognize taxable income significantly in excess of the interest payments received while the notes are outstanding.

A U.S. Holder will also recognize gain or loss on the sale, conversion, exchange, redemption or retirement of a note in an amount equal to the difference between the amount realized on the sale, conversion, exchange, redemption or retirement of the note, including the fair market value of our common stock received, and the U.S. Holder's adjusted tax basis in the note. Any gain recognized on the sale, conversion, exchange, redemption or retirement of a note generally will be ordinary interest income and any loss will be ordinary loss to the extent of the interest previously included in income, and thereafter, capital loss. The material U.S. federal income tax consequences of the purchase, ownership and disposition of the notes are summarized in this prospectus supplement under the heading Material U.S. Federal Income Tax Considerations.

### ***You may have to pay taxes with respect to distributions on our common stock that you do not receive.***

The conversion rate of the notes will be adjusted in certain circumstances. See Description of Notes Conversion Rights General and Description of Notes Conversion Rights Conversion Price Adjustments. Such adjustments (or failures to make adjustments) that have the effect of increasing your proportionate interest in our assets or earnings may in some circumstances result in a deemed distribution to you, notwithstanding the fact that you do not receive such distribution. In addition, non-U.S. Holders (as defined in Material U.S. Federal Income Tax Considerations ) of the notes may, in certain circumstances, be deemed to have received a distribution subject to United States federal withholding tax requirements, which we may withhold from cash payments of interest on the notes. The adjustment to the Conversion Rate of notes converted in connection with certain changes of control, as described under Description of Notes Conversion Rights Adjustment to Shares Delivered Upon Conversion Upon Certain Changes of Control, also may be treated as a taxable distribution. Please read Material U.S. Federal Income Tax Considerations.

**Table of Contents**

**USE OF PROCEEDS**

We expect the net proceeds from this offering to be approximately \$479.1 million, after deducting underwriters' discounts and the estimated expenses of the offering payable by us. If the underwriter exercises its option to purchase additional notes in full, we expect to receive net proceeds of approximately \$551.0 million. We intend to use the net proceeds from this offering to repay borrowings under our revolving bank credit facility. As of June 30, 2007, the average interest rate on borrowings outstanding under our revolving bank credit facility, which matures in February 2011, was 6.8%. An affiliate of the underwriter in this offering is a lender under our existing revolving bank credit facility and may receive a portion of the proceeds therefrom. See "Underwriting."

S-26

**Table of Contents****CAPITALIZATION**

The following table shows our unaudited capitalization as of June 30, 2007:

on a historical basis; and

on a pro forma basis to reflect the consummation of this offering.

This table should be read in conjunction with, and is qualified in its entirety by reference to, our historical financial statements and the accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2006, and our quarterly report on Form 10-Q for the quarter ended June 30, 2007, which are incorporated by reference herein.

|  | As of June 30, 2007 |              |
|--|---------------------|--------------|
|  | Historical          | Pro Forma    |
|  | (\$ in thousands)   |              |
| Cash and cash equivalents  | \$ 3,870            | \$ 3,870     |
| Long-term debt:  |                     |              |
| Revolving bank credit facility(1)  | \$ 1,098,000        | \$ 618,875   |
| 7.500% Senior Notes due 2013   | 363,823             | 363,823      |
| 7.625% Senior Notes due 2013   | 500,000             | 500,000      |
| 7.000% Senior Notes due 2014   | 300,000             | 300,000      |
| 7.500% Senior Notes due 2014   | 300,000             | 300,000      |
| 7.750% Senior Notes due 2015   | 300,408             | 300,408      |
| 6.375% Senior Notes due 2015   | 600,000             | 600,000      |
| 6.625% Senior Notes due 2016   | 600,000             | 600,000      |
| 6.875% Senior Notes due 2016   | 670,437             | 670,437      |
| 6.500% Senior Notes due 2017   | 1,100,000           | 1,100,000    |
| 6.250% Euro-denominated Senior Notes due 2017(2)   | 811,200             | 811,200      |
| 6.250% Senior Notes due 2018   | 600,000             | 600,000      |
| 6.875% Senior Notes due 2020   | 500,000             | 500,000      |
| 2.750% Contingent Convertible Senior Notes due 2035  | 690,000             | 690,000      |
| 2.500% Contingent Convertible Senior Notes due 2037  | 1,150,000           | 1,650,000    |
| Interest rate derivatives  | (69,412)            | (69,412)     |
| Discount, net of premium, on Senior Notes  | (97,806)            | (109,681)    |
| Total long-term debt   | \$ 9,416,650        | \$ 9,425,650 |
| Stockholders' equity:  |                     |              |
| Preferred stock, \$0.01 par value, 20,000,000 authorized:  |                     |              |
| 4.125% Cumulative Convertible Preferred Stock, 3,062 shares issued and outstanding, entitled in liquidation to \$3.1 million                     | 3,062               | 3,062        |
| 5.00% Cumulative Convertible Preferred Stock (Series 2005), 4,600,000 shares issued and outstanding, entitled in liquidation to \$460.0 million  | 460,000             | 460,000      |
| 4.50% Cumulative Convertible Preferred Stock, 3,450,000 shares issued and outstanding, entitled in liquidation to \$345.0 million                | 345,000             | 345,000      |
| 5.00% Cumulative Convertible Preferred Stock (Series 2005B), 5,750,000 shares issued and outstanding, entitled in liquidation to \$575.0 million | 575,000             | 575,000      |
| 6.25% Mandatory Convertible Preferred Stock, 2,300,000 shares issued and outstanding, entitled in liquidation to \$575.0 million                 | 575,000             | 575,000      |
| Common stock, \$0.01 par value, 750,000,000 shares authorized, 471,791,692 issued and outstanding  | 4,718               | 4,718        |
| Paid-in capital  | 5,929,016           | 5,929,016    |

## Edgar Filing: NOMAC DRILLING CORP - Form 424B2

|  |                      |                      |
|--|----------------------|----------------------|
| Retained earnings  | 3,576,048            | 3,576,048            |
| Accumulated other comprehensive income (loss), net of tax of (\$103 million) | 170,380              | 170,380              |
| Less: treasury stock, at cost; 704,258 common shares                         | (12,059)             | (12,059)             |
| <b>Total stockholders' equity</b>  | <b>\$ 11,626,165</b> | <b>\$ 11,626,165</b> |
| <br>Total capitalization   | <br>\$ 21,042,815    | <br>\$ 21,051,815    |

---

(1) As of August 8, 2007, we had outstanding borrowings of \$2.1 billion under our revolving bank credit facility.

(2) The principal amount shown is based on the dollar/euro exchange rate of \$1.3520 to 1.00 as of June 30, 2007.

S-27



**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the New York Stock Exchange under the symbol CHK. The following table sets forth the range of high and low sales prices per share of our common stock for each calendar quarter.

|  | <b>Common Stock</b> |            |
|--|---------------------|------------|
|  | <b>High</b>         | <b>Low</b> |
| <b>Year ended December 31, 2007:</b>   |                     |            |
| Third Quarter (through August 8, 2007) | \$ 37.55            | \$ 33.12   |
| Second Quarter                         | 37.75               | 30.88      |
| First Quarter                          | 31.83               | 27.27      |
| <b>Year ended December 31, 2006:</b>   |                     |            |
| Fourth Quarter                         | \$ 34.27            | \$ 27.90   |
| Third Quarter                          | 33.76               | 28.06      |
| Second Quarter                         | 33.79               | 26.81      |
| First Quarter                          | 35.57               | 27.75      |
| <b>Year ended December 31, 2005:</b>   |                     |            |
| Fourth Quarter                         | \$ 40.20            | \$ 26.59   |
| Third Quarter                          | 38.98               | 22.90      |
| Second Quarter                         | 24.00               | 17.74      |
| First Quarter                          | 23.65               | 15.06      |

On August 8, 2007, the closing sale price of our common stock, as reported by the New York Stock Exchange, was \$35.43 per share. On that date, there were approximately 1,600 holders of record.

**Table of Contents****DIVIDEND POLICY**

The following table sets forth the amount of dividends per share declared on our common stock during the two years ended December 31, 2006 and the first half of 2007:

|                | 2007      | 2006     | 2005     |
|----------------|-----------|----------|----------|
| First Quarter  | \$ 0.0600 | \$ 0.050 | \$ 0.045 |
| Second Quarter | 0.0675    | 0.060    | 0.050    |
| Third Quarter  |           | 0.060    | 0.050    |
| Fourth Quarter |           | 0.060    | 0.050    |

We began paying a \$0.0675 per quarter cash dividend on our common stock with respect to the second quarter of 2007. We intend to continue to pay this quarterly dividend; however, the payment of future cash dividends will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, our future business prospects and any contractual restrictions.

Our revolving bank credit facility and the indentures governing most of our senior notes (but not the indenture under which the notes offered hereby will be issued) contain restrictions on our ability to declare and pay cash dividends. Under the revolving bank credit facility and most of these indentures, we may not pay any cash dividends on our common or preferred stock if an event of default has occurred. Additionally, most of these indentures restrict cash dividends if we have not met one of two debt incurrence tests set forth in the indentures, or if immediately after giving effect to the dividend payment, we have paid total dividends and made other restricted payments in excess of the permitted amounts. As of June 30, 2007, our fixed charge coverage ratio for purposes of the debt incurrence test was 6.5021 to 1.00, compared to 2.25 to 1.00 required in our most restrictive indentures.

## **Table of Contents**

### **DESCRIPTION OF NOTES**

Chesapeake Energy Corporation will issue the Notes offered hereby (the "New Notes") under its Indenture dated as of May 15, 2007 (the "Indenture"), among the Company, as issuer, the Subsidiary Guarantors, as guarantors, and The Bank of New York Trust Company, N.A., as Trustee (the "Trustee"). On May 15, 2007, we issued \$1,150,000,000 aggregate principal amount of our 2.500% Contingent Convertible Senior Notes due 2037 (the "Initial Notes") under the Indenture. The New Notes and the Initial Notes will be treated as a single class of debt securities under the Indenture, including for purposes of determining whether the required percentage of noteholders have given their approval or consent to an amendment or waiver or joined in directing the Trustee to take certain actions, on behalf of all noteholders. The New Notes, however, will not have the same CUSIP number as and will not trade interchangeably with the Initial Notes.

For purposes of this description, unless the context indicates otherwise, references to "Notes" include the New Notes, the Initial Notes and any Add-On Notes (as defined below). The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (the "Trust Indenture Act").

The following description is only a summary of the material provisions of the Notes and the Indenture. These descriptions do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the Notes and the Indenture. You may request copies of the Indenture at our address set forth under the heading "Where You Can Find More Information."

Certain terms used in this description are defined under the subheading "Certain Definitions." In this description, the words "Company" and "we" refer only to Chesapeake Energy Corporation and not to any of its subsidiaries.

#### **General**

The Company issued the Initial Notes in an aggregate principal amount of \$1,150,000,000 and will issue the New Notes in an aggregate principal amount of \$500,000,000 (or \$575,000,000 if the underwriter exercises in full its over-allotment option to purchase additional Notes). The Company is permitted to issue additional Notes under the Indenture in an unlimited aggregate principal amount ("Add-On Notes"). Any Add-On Notes that are actually issued will be treated as issued and outstanding Notes (as the same class as the Initial Notes and New Notes) for all purposes of the Indenture and this "Description of Notes" unless the context indicates otherwise. Each Note will mature on May 15, 2037 and will bear interest at the rate of interest per annum indicated on the cover page of this prospectus supplement. We will also pay contingent interest on the Notes in the circumstances described under "Contingent Interest" below.

Interest on the New Notes issued in this offering will accrue from May 15, 2007 at an annual rate of 2.500%, payable semi-annually in arrears on May 15 and November 15 of each year, commencing November 15, 2007. We will make each interest payment to the Holders of record of the Notes at the close of business on the May 1 or November 1 preceding such interest date. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Principal, premium, if any, and interest will be payable at the offices of the Trustee and the paying agent, *provided* that, at the option of the Company, payment of interest on Notes not in global form may be made by check mailed to the address of the Person entitled thereto as it appears in the register of the Notes maintained by the registrar. Initially, the Trustee will also act as paying agent, conversion agent and registrar for the Notes.

The Notes are unsecured senior obligations of the Company. The Notes rank *pari passu* in right of payment with all existing and future Senior Indebtedness of the Company and rank senior in right of payment to all future Subordinated Indebtedness of the Company.

## **Table of Contents**

Under the Indenture, we and each Holder of the Notes agree, for U.S. federal income tax purposes, to treat the Notes as indebtedness that is subject to U.S. Treasury regulations governing contingent payment debt instruments and to accrue interest on the Notes at our comparable yield. For a discussion of the tax consequences of an investment in the Notes, see Material U.S. Federal Income Tax Considerations.

### **Guarantees**

On the date of delivery of the New Notes, all the existing subsidiaries of the Company, other than certain de minimis Subsidiaries, will fully and unconditionally guarantee, on a joint and several basis, the Company's obligations to pay principal of, premium, if any, and interest on the Notes. The Indenture provides that each Person that becomes a domestic Subsidiary after the Issue Date and guarantees any other Indebtedness of the Company or a Subsidiary Guarantor in excess of a De Minimis Guaranteed Amount will guarantee the payment of the Notes within 180 days after the later of (i) the date it becomes a domestic Subsidiary and (ii) the date it guarantees such other Indebtedness, *provided* that no guarantee shall be required if the Subsidiary merges into the Company or an existing Subsidiary Guarantor and the surviving entity remains a Subsidiary Guarantor.

The obligations of each Subsidiary Guarantor under its Guarantee will be limited as necessary to prevent that Guarantee from constituting a fraudulent conveyance or fraudulent transfer under federal, state or foreign law. Each Subsidiary Guarantor that makes a payment or distribution under a Guarantee shall be entitled to a contribution from each other Subsidiary Guarantor in a pro rata amount based on the respective net assets of each Subsidiary Guarantor at the time of such payment determined in accordance with GAAP.

If a Guarantee were rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Guarantee could be reduced to zero. Please read Risk Factors Risks Related to the Notes A guarantee could be voided if the guarantor fraudulently transferred the guarantee at the time it incurred the indebtedness, which could result in the noteholders being able to rely on only us to satisfy claims.

Subject to the next succeeding paragraph, no Subsidiary Guarantor may consolidate or merge with or into (whether or not such Subsidiary Guarantor is the surviving Person) another Person unless:

(1) the Person formed by or surviving any such consolidation or merger (if other than such Subsidiary Guarantor) assumes all the obligations of such Subsidiary Guarantor under the Indenture and the Notes pursuant to a supplemental indenture, in a form reasonably satisfactory to the Trustee, and

(2) immediately after such transaction, no Default or Event of Default exists.

The preceding does not prohibit a merger between Subsidiary Guarantors or a merger between the Company and a Subsidiary Guarantor.

In the event of a sale or other disposition of all or substantially all of the assets of any Subsidiary Guarantor, or a sale or other disposition of all the Capital Stock of such Subsidiary Guarantor, in any case whether by way of merger, consolidation or otherwise, then such Subsidiary Guarantor (in the event of a sale or other disposition by way of such a merger, consolidation or otherwise, of all of the Capital Stock of such Subsidiary Guarantor) or the Person acquiring the assets (in the event of a sale or other disposition, by way of such a merger, consolidation or otherwise, of all or substantially all of the assets of such Subsidiary Guarantor) will be released and relieved of any obligations under its Guarantee. Further, a Subsidiary Guarantor will be released and relieved from any obligations under its Guarantee if it ceases to guarantee any other Indebtedness of the Company or any other Subsidiary Guarantor other than a De Minimis Guaranteed Amount or the Indenture is satisfied and discharged as described below under Discharge of the Indenture.

## **Table of Contents**

### **Ranking**

*Senior Indebtedness versus Notes.* The Indebtedness evidenced by the Notes and the Guarantees will be unsecured and will rank pari passu in right of payment to all Senior Indebtedness of the Company and the Subsidiary Guarantors, as the case may be.

As of June 30, 2007, the Company and the Subsidiary Guarantors had approximately \$9.6 billion in principal amount of Senior Indebtedness outstanding, \$1.1 billion of which was indebtedness under our secured revolving bank credit facility. Upon completion of this offering and the ultimate application of the net proceeds therefrom as described under *Use of Proceeds*, we would have had, on a pro forma basis as of June 30, 2007, approximately \$9.6 billion in principal amount of Senior Indebtedness outstanding, \$607 million of which would have been secured. As of August 8, 2007, we had outstanding borrowings of \$2.1 billion under our revolving bank credit facility.

The Notes will be unsecured obligations of the Company. Secured debt and other secured obligations of the Company and the Subsidiary Guarantors (including obligations with respect to our revolving bank credit facility) will be effectively senior to the Notes to the extent of the value of the assets securing such debt or other obligations.

*Liabilities of Subsidiaries versus Notes.* A substantial portion of the Company's operations is conducted through its subsidiaries. Claims of creditors of any subsidiaries that are not Subsidiary Guarantors, including trade creditors and creditors holding indebtedness or guarantees issued by such subsidiaries, and claims of preferred stockholders of such subsidiaries will have priority with respect to the assets and earnings of such subsidiaries over the claims of the Company's creditors, including Holders of the Notes. Accordingly, the Notes will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of the Company's subsidiaries that are not Subsidiary Guarantors.

### **Contingent Interest**

We will pay contingent interest to Holders of the Notes during any six-month period from and including an interest payment date to but excluding the next interest payment date, commencing with the six-month period ending November 14, 2017, if the average trading price per \$1,000 principal amount of the Notes for the five trading-day period ending on the third day immediately preceding the first day of such six-month interest period equals 120% or more of such principal amount of the Notes.

During any interest period in which contingent interest shall be payable, the contingent interest payable per \$1,000 principal amount of the Notes will equal 0.50% per annum of the average trading price of \$1,000 principal amount of Notes during the five trading-day measuring period ending on the third day immediately preceding the applicable six-month interest period used to determine whether contingent interest must be paid.

Contingent interest, if any, will accrue from the first day of any interest period and be payable on the interest payment date at the end of the relevant six-month period to Holders of the Notes as of the record date relating to such interest payment date.

We will pay contingent interest, if any, in the same manner as we will pay interest described above under *General* and your obligations in respect of the payment of contingent interest in connection with the conversion of any Notes will also be the same as described below under *Payment Upon Conversion*. Upon determination that Holders of Notes will be entitled to receive contingent interest which may become payable during a relevant period, on or prior to the start of such period, we will provide notice to the Trustee setting forth the amount of contingent interest per \$1,000 principal amount of Notes and disseminate a press release through Dow Jones & Company, Inc. or Bloomberg Business News or other similarly broad public medium that is customary for such press releases.

## **Table of Contents**

The Trustee will determine the trading price.

The trading price of the Notes on any date of determination means the average of the secondary market bid quotations per Note obtained by the Trustee for \$5,000,000 principal amount of the Notes at approximately 3:30 p.m., New York City time, on such determination date from two independent nationally recognized securities dealers we select, which may include one or more of the underwriters of the Notes, provided that if at least two such bids cannot reasonably be obtained by the Trustee, but one such bid can reasonably be obtained by the Trustee, this one bid will be used. If the Trustee cannot reasonably obtain at least one bid for \$5,000,000 principal amount of the Notes from a nationally recognized securities dealer or, in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the Notes, then the trading price of the Notes will equal (a) the Applicable Conversion Rate of the Notes multiplied by (b) the Closing Sale Price (as defined under Conversion Rights Conversion Upon Satisfaction of Common Stock Price Condition ) of our common stock on such determination date.

### **Conversion Rights**

Subject to the restrictions described in this Description of Notes, a Holder may convert any outstanding Notes into cash and, if applicable, shares of our common stock based on the Applicable Conversion Rate and in accordance with the conversion mechanism described below. A Holder may convert Notes only in denominations of \$1,000 and integral multiples thereof.

#### *General*

Prior to May 15, 2035, the Notes will be convertible as provided herein only in the circumstances described below under Conversion Upon Satisfaction of Common Stock Price Condition, Conversion Upon Satisfaction of Trading Price Condition, Conversion Upon Notice of Redemption or Conversion Upon Specified Corporate Transactions. On or after May 15, 2035, Notes may be converted without regard to the foregoing conditions, at any time on or before the close of business on the Maturity Date. Notwithstanding the foregoing, a Holder's right to convert a Note called for redemption or delivered for repurchase will terminate at the close of business on the business day immediately preceding the redemption date or repurchase date for that Note, unless we default in making the payment due upon redemption or repurchase. In addition, if a Holder has exercised its right to require us to repurchase its Notes, such Holder may convert its Notes only if it withdraws its notice and converts its Notes before the close of business on the business day immediately preceding such repurchase date.

The Applicable Conversion Rate for any Notes to be converted will be determined as follows:

if the Applicable Stock Price for such Notes is less than or equal to the Base Conversion Price, the Applicable Conversion Rate for such Notes will be equal to the Base Conversion Rate, as may be adjusted as described below, or

if the Applicable Stock Price for such Notes is greater than the Base Conversion Price, the Applicable Conversion Rate for such Notes will be determined in accordance with the following formula:

$$(\text{Applicable Stock Price} - \text{Base Conversion Price}) \times \text{Incremental Share Factor}$$

$$\text{Base Conversion Rate} + \left[ \frac{\text{Applicable Stock Price}}{\text{Base Conversion Price}} - 1 \right] \times \text{Base Conversion Rate}$$

The Base Conversion Price is \$51.5815 (the initial Base Conversion Price of \$51.5850, as adjusted for the payment of a \$0.0675 per share quarterly cash dividend on our common stock in July 2007) subject to further adjustment as described under Description of Notes Conversion Rights Conversion Price Adjustments. The Base Conversion Price may be adjusted in certain corporate transactions that also constitute a Fundamental Change. See Adjustment to Shares Delivered Upon Conversion Upon Certain Changes of Control below.

The Base Conversion Rate per \$1,000 principal amount of Notes is a number of shares of common stock (approximately 19.3868) determined by dividing \$1,000 by the Base Conversion Price.

S-33

## **Table of Contents**

The Incremental Share Factor is 9.6934 (the initial Incremental Share Factor of 9.6927, as adjusted for the payment of the quarterly common stock dividend described above), subject to the same proportional adjustment as the Base Conversion Rate, in each case based upon adjustments to the Base Conversion Price.

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

The term trading day means a day during which (i) trading in securities generally occurs on the New York Stock Exchange or, if our common stock is not listed on the New York Stock Exchange, on the principal other national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a national or regional securities exchange, on the NASDAQ Global Market or NASDAQ Global Select Market or, if our common stock is not quoted on the NASDAQ Global Market or NASDAQ Global Select Market, on the principal other market on which our common stock is then traded and (ii) there is no Market Disruption Event.

The Closing Sale Price of our common stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the closing bid and ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices) on such date as reported on the principal United States securities exchange on which our common stock is traded or, if our common stock is not listed on a United States national or regional securities exchange, as reported by the NASDAQ Global Market or NASDAQ Global Select Market or by the National Quotation Bureau Incorporated. In the absence of such a quotation, the Closing Sale Price will be an amount determined in good faith by our board of directors to be the fair value of our common stock. The Closing Sale Price of any acquired common stock as described under Conversion Upon a Public Acquirer Change in Control shall be determined in the same manner.

Market Disruption Event means the occurrence or existence during the one-half hour period ending on the scheduled close of trading on any trading day for our common stock of any material suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the stock exchange or otherwise) in our common stock or in any options, contracts or future contracts relating to our common stock.

### *Conversion Upon Satisfaction of Common Stock Price Condition*

Prior to May 15, 2035, with respect to any calendar quarter commencing after the Issue Date, a Holder may surrender any of its Notes for conversion during such calendar quarter (and only during such quarter) if the Closing Sale Price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 125% of the Base Conversion Price on such last trading day.

On or after May 15, 2035, a Holder may surrender any of its Notes for conversion at all times.

### *Conversion Upon Satisfaction of Trading Price Condition*

You may surrender your Notes for conversion prior to maturity during the five business-day period following any five consecutive trading-day period in which the trading price per \$1,000 principal amount of Notes, as determined by the Trustee following a request by a Holder of Notes in accordance with the procedures described below, for each trading day of such five trading-day period was less than 95% of the product of the average of the Closing Sale Prices of our common stock for such five trading-day period and the Applicable Conversion Rate. For purposes of this condition, the Applicable Conversion Rate on any day shall be determined assuming the Applicable Stock Price is equal to the Closing Sale Price on such day.

The Trustee shall have no obligation to determine the trading price of the Notes for this purpose unless we have requested such determination in writing, and we shall have no obligation to make such request unless a Holder provides us with reasonable evidence that the trading price of the Notes on any date would be less than



## **Table of Contents**

95% of the product of the Closing Sale Price on such date and the Applicable Conversion Rate. At such time, we shall instruct the Trustee to determine the trading price of the Notes beginning on the next trading day and on each successive trading day until the trading price of the Notes is greater than or equal to 95% of the product of the Closing Sale Price and the Applicable Conversion Rate.

For this purpose, the trading price of the Notes on any date of determination shall be as set forth under Contingent Interest, except that if the Trustee cannot reasonably obtain at least one bid for \$5,000,000 principal amount of the Notes from a nationally recognized securities dealer or, in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the Notes, then the trading price of the Notes will be deemed to be less than 95% of the Applicable Conversion Rate of the Notes multiplied by the Closing Sale Price on such determination date, *provided* that the foregoing shall not be applicable in the context of the determination of the trading price of the Notes for any six-month period for the purpose of determining whether contingent interest is payable as set forth under Contingent Interest.

### *Conversion Upon Notice of Redemption*

A Holder may surrender for conversion any Note called for redemption at any time prior to the close of business on the day that is one business day prior to the redemption date, whether or not the Notes are otherwise convertible at such time.

### *Conversion Upon Specified Corporate Transactions*

If we elect to:

distribute to all or substantially all holders of our common stock rights, warrants or options entitling them to subscribe for or purchase, for a period expiring not more than 60 days after the date of distribution, shares of our common stock at less than the average of the Closing Sale Prices of our common stock for the ten trading days immediately preceding the date that such distribution was first publicly announced; or

distribute to all or substantially all holders of our common stock cash, other assets, debt securities or certain rights or warrants to purchase our securities, which distribution has a per share value exceeding 10% of the Closing Sale Price of our common stock on the trading day immediately preceding the date that such distribution was first publicly announced, we must notify the Holders of Notes at least 20 days prior to the ex-dividend date for such distribution. Once we have given such notice, Holders may surrender their Notes for conversion until the earlier of the close of business on the business day prior to the ex-dividend date or our announcement that such distribution will not take place. This provision shall not apply if the Holder of a Note otherwise participates in the distribution on an as-converted basis (solely into shares of our common stock at the then Applicable Conversion Rate) without conversion of such Holder's Notes.

In addition, if we are a party to a consolidation, merger, share exchange, sale of all or substantially all of our assets or other similar transaction, in each case pursuant to which the shares of our common stock would be converted into (or holders of such shares would be entitled to receive) cash, securities or other property, a Holder may surrender its Notes for conversion at any time from and after the effective date of such transaction until and including the date that is 30 days after the effective date of such transaction. If the transaction also constitutes a Fundamental Change (as described below), such Holder can instead require us to repurchase all or a portion of its Notes as described under Right to Require Repurchase of Notes Upon a Fundamental Change.

### *Payment Upon Conversion*

Subject to certain exceptions described below under Adjustment to Shares Delivered Upon Conversion Upon Certain Changes of Control, we will deliver to Holders in respect of each \$1,000 principal amount of Notes surrendered for conversion a Settlement Amount equal to the sum of the Daily Settlement Amounts for each of the 20 consecutive trading days during the applicable Cash Settlement Averaging Period.

## **Table of Contents**

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

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

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

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

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

If we reclassify our common stock or we are a party to a consolidation, merger, share exchange, sale of all or substantially all of our assets or other similar transaction, in which holders of our outstanding common stock would be entitled to receive cash, securities or other property for their shares of common stock, then, except as described below under Conversion Upon a Public Acquirer Change in Control, the right to convert a Note into cash and shares will be changed into a right to convert a Note into cash (up to the aggregate principal amount thereof) and the same type (and in the same proportion) of consideration received by holders of our common stock in these types of events (the reference property), based on the Daily Conversion Values of reference property, in an amount equal to the applicable Settlement Amount. If the transaction also constitutes a Fundamental Change, a holder can require us to repurchase all or a portion of its Notes as described under Right to Require Repurchase of Notes Upon a Fundamental Change.

For purposes of the foregoing, the type and amount of consideration that a holder of our common stock would have been entitled to in the case of reclassifications, consolidations, mergers, sales or transfers of assets or other transactions that cause our common stock to be converted into the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election) will be deemed to be the weighted average of the types and amounts of consideration received by the holders of our common stock that affirmatively make such an election.

In addition, for purposes of the foregoing, the Daily Conversion Values of reference property (or acquirer common stock in the event we make the election referred to under Conversion Upon a Public Acquirer Change of Control) will be determined by reference to (i) in the case of any security that constitutes reference property that is traded on a United States national securities exchange or the NASDAQ Global Market or NASDAQ Global Select Market or in the case of acquirer common stock, the closing sale price of such security or common stock, which shall be determined in a manner similar to the determination of the Closing Sale Price of our common stock, (ii) in the case of any other property other than cash, the value thereof as determined by two independent nationally recognized investment banks as of the effective date of the transaction and (iii) in the case of cash, at 100% of the amount thereof.

We will deliver the Settlement Amount to Holders who have tendered Notes for conversion on the third business day immediately following the last day of the Cash Settlement Averaging Period in respect of such Notes.

## **Table of Contents**

No fractional shares of common stock or securities representing fractional shares of common stock will be issued upon conversion. Any fractional interest in a share of common stock resulting from conversion will be paid in cash based on the average of the Closing Sale Prices on each day during the relevant Cash Settlement Averaging Period. For purposes of the foregoing, fractional shares arising from the calculation of the Daily Settlement Amount for any day in the Cash Settlement Averaging Period shall be aggregated with fractional shares for all other days in such period in determining the Settlement Amount, and any whole shares resulting therefrom shall be issued and any remaining fractional shares shall be paid in cash.

We may not have the financial resources, and we may not be able to arrange for financing, to pay the cash portion of the Settlement Amount for all Notes tendered for conversion. See **Risk Factors** **Risks Related to the Notes** We may be unable to repurchase your notes as required under the indenture upon a fundamental change or on the specified dates at the option of the holder or pay you cash upon conversion of your notes.

Delivery of the Settlement Amount and cash in lieu of fractional shares will be deemed to satisfy our obligation to pay the principal amount of the Notes and accrued interest (including contingent interest, if any) payable on the Notes, except as described below. Accrued interest (including contingent interest, if any) will be deemed paid in full rather than canceled, extinguished or forfeited. We will not adjust the Base Conversion Price to account for accrued and unpaid interest (including contingent interest, if any).

Except as described in this paragraph, no Holder of Notes will be entitled, upon conversion of the Notes, to any actual payment or adjustment on account of accrued and unpaid interest (including contingent interest, if any) on a converted Note, or on account of dividends or distributions on shares of our common stock issued in connection with the conversion of such Notes. If Notes are converted after a regular record date and prior to the opening of business on the next interest payment date, including the Maturity Date, Holders of such Notes at the close of business on the regular record date will receive the interest (including contingent interest, if any) payable on such Notes on the corresponding interest payment date notwithstanding the conversion. In such event, when the Holder surrenders the Note for conversion, the Holder must deliver payment to us of an amount equal to the interest payable on the interest payment date (including contingent interest, if any) on the principal amount to be converted. The foregoing sentence shall not apply to Notes called for redemption on a redemption date within the period between the close of business on the record date and the opening of business on the interest payment date, or to Notes surrendered for conversion on the interest payment date.

All shares of common stock distributed upon conversion will be freely transferable without restriction under the Securities Act (other than by our affiliates), and such shares will be eligible for receipt in global form through the facilities of DTC.

### *Conversion Procedures*

If you wish to exercise your conversion right, you must deliver an irrevocable conversion notice in accordance with the provisions of the Indenture, together, if the Notes are in certificated form, with the certificated security, to the Trustee who will, on your behalf, convert the Notes into cash and shares of our common stock. You may obtain copies of the required form of the conversion notice from the Trustee. If a Holder of a Note has delivered notice of its election to have such Note repurchased at the option of such Holder on May 15, 2017, 2022, 2027 and 2032 or as a result of a Fundamental Change, such Note may be converted only if the notice of election is withdrawn as described under **Repurchase of Notes at the Option of the Holder** or **Right to Require Repurchase of Notes Upon a Fundamental Change**.

### *Conversion Price Adjustments*

The Base Conversion Price is subject to adjustment in certain events, including those set forth below:

Any payment of a dividend (or other distribution) payable in shares of common stock on any class of our Capital Stock;

## Table of Contents

any issuance to all holders of shares of common stock of rights, options or warrants entitling them to subscribe for or purchase, for a period expiring not more than 60 days after the date of distribution, shares of our common stock at less than the average of the Closing Sale Prices of our common stock for the ten trading days immediately preceding the date that such distribution was first publicly announced; *provided, however*, that no adjustment shall be made with respect to such a distribution if Holders of the Notes are entitled to participate in the distribution on substantially the same terms as holders of our common stock as if such Holders had converted their Notes solely into common stock immediately prior to such distribution at the then Applicable Conversion Rate;

any subdivision, combination or reclassification of our common stock;

any dividend or distribution to all holders of shares of our common stock (other than a dividend or distribution referred to in the second bullet point above) made pursuant to any shareholder rights plan, poison pill or similar arrangement;

any distribution by us consisting exclusively of cash to all holders of our common stock, excluding any cash dividend on our common stock to the extent that the aggregate cash dividend per share of our common stock in any quarterly period does not exceed \$0.065 (the dividend threshold amount); the dividend threshold amount is subject to adjustment under the same circumstances under which the Base Conversion Price is subject to adjustment; *provided, however*, that no adjustment will be made to the dividend threshold amount for any adjustment made to the Base Conversion Price pursuant to this clause, in which event the Base Conversion Price will be adjusted by multiplying:

(1) the Base Conversion Price by

(2) a fraction, the numerator of which will be the Market Value of a share of our common stock minus the amount per share of such dividend increase (as determined below) or distribution and the denominator of which will be the Market Value of a share of our common stock.

If an adjustment is required to be made under this clause as a result of a cash dividend in any quarterly period that exceeds the dividend threshold amount, the adjustment would be based upon the amount by which the distribution exceeds the dividend threshold amount (the dividend increase). If an adjustment is otherwise required to be made under this clause, the adjustment would be based upon the full amount of the distribution. Notwithstanding the foregoing, in no event will the Base Conversion Price be less than \$34.3876 (the initial minimum price of \$34.39, as adjusted for the payment of a \$0.0675 per share quarterly cash dividend on our common stock in July 2007), subject to adjustment in accordance with the first, second, third, fourth, sixth and seventh bullet points under this caption Conversion Price Adjustments ;

the completion of a tender or exchange offer made by us or any of our subsidiaries for shares of our common stock that involves an aggregate consideration that, together with (a) any cash and other consideration payable in a tender or exchange offer by us or any of our subsidiaries for shares of our common stock expiring within the then preceding 12 months in respect of which no adjustment has been made and (b) the aggregate amount of any such all-cash distributions referred to in the preceding bullet point to all holders of shares of common stock within the then preceding 12 months in respect of which no adjustments have been made, exceeds 15% of our market capitalization on the expiration of such tender offer; or

a distribution to all holders of common stock consisting of evidences of indebtedness, shares of Capital Stock other than common stock or assets (including securities, but excluding those dividends, rights, options, warrants and distributions referred to above); *provided, however*, that no adjustment shall be made with respect to such a distribution if Holders of the Notes are entitled to participate in the distribution on substantially the same terms as holders of our common stock as if such Holders had converted their Notes solely into common stock immediately prior to such distribution at the then Applicable Conversion Rate.

Upon any adjustment to the Base Conversion Price, the Base Conversion Rate will be adjusted accordingly. At any time the Base Conversion Rate is adjusted, the Incremental Share Factor will be proportionately adjusted on the same basis. No adjustment of the Base Conversion Price will be required unless such adjustment would



## Table of Contents

require an increase or decrease of at least 1.0% of the Base Conversion Price then in effect. Any lesser adjustment shall be carried forward and shall be made at the time of and together with the next subsequent adjustment, if any, which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least 1.0% of such Base Conversion Price; *provided, however*, that with respect to adjustments to be made to the Base Conversion Price in connection with cash dividends paid by us, we will make such adjustments, regardless of whether such aggregate adjustments amount to 1.0% or more of the Base Conversion Price, no later than May 15 of each calendar year. We reserve the right to make such reductions in the Base Conversion Price in addition to those required in the foregoing provisions as we consider to be advisable in order that any event treated for federal income tax purposes as a dividend of stock or stock rights will not be taxable to the recipients. If we elect to make such a reduction in the Base Conversion Price, we will comply with the requirements of securities laws and regulations thereunder if and to the extent that such laws and regulations are applicable in connection with the reduction of the Base Conversion Price.

On July 16, 2007, we paid a \$0.0675 per share quarterly cash dividend on our common stock to shareholders of record on July 2, 2007. In accordance with the fifth bullet point above, the Base Conversion Price set forth in the Indenture was adjusted from \$51.5850 to \$51.5815, the Base Conversion Rate was adjusted from 19.3855 to 19.3868 and the Incremental Share Factor was adjusted from 9.6927 to 9.6934, in each case, effective as of July 2, 2007.

The term **Market Value** means the average Closing Sale Price of the common stock for a five consecutive trading-day period ending immediately prior to the date of determination.

The Base Conversion Price will not be adjusted for the issuance of our common stock (or securities convertible into or exchangeable for our common stock), except as described above. For example, and not by way of limitation, the Base Conversion Price will not be adjusted upon the issuance of shares of our common stock:

under any present or future employee benefit plan or program of ours;

in connection with an acquisition made by us; or

pursuant to the exercise of any option, warrant or right to purchase our common stock, the exchange of any exchangeable security for our common stock or the conversion of any convertible security into our common stock (except as expressly set forth above).

### *Adjustment to Shares Delivered Upon Conversion Upon Certain Changes of Control*

If you elect to convert your Notes in connection with a corporate transaction described above under **Conversion Upon Specified Corporate Transactions** that occurs on or prior to May 15, 2017 that constitutes a Fundamental Change as defined under **Right to Require Repurchase of Notes Upon a Fundamental Change** (other than a Fundamental Change relating to the composition of our board of directors) and 10% or more of the fair market value of the consideration for the common stock in the corporate transaction consists of (i) cash (not including cash payments for fractional shares and cash payments pursuant to dissenters' appraisal rights), (ii) other property or (iii) securities that are not traded or scheduled to be traded immediately following such transaction on a U.S. national securities exchange or the NASDAQ Global Market or NASDAQ Global Select Market, which we refer to as a non-stock change in control, we will increase the Applicable Conversion Rate with respect to Notes converted in connection with such transaction by a number of shares (the additional shares) as described below, except that we will not make such adjustment if a public acquirer change of control occurs and we have made the election described below under **Conversion Upon a Public Acquirer Change of Control**. A conversion will be deemed to be in connection with a non-stock change of control only if the conversion is effected from and after the effective date until and including the 30th day thereafter.

The increase in the Applicable Conversion Rate will be expressed as a number of additional shares per \$1,000 principal amount of Notes and will be determined by reference to the table below, based on the date on which the corporate transaction constituting a non-stock change in control becomes effective (the effective

**Table of Contents**

date ) and the share price (the share price ) paid per share of common stock in such corporate transaction. If holders of shares of our common stock receive only cash in the corporate transaction, the share price shall be the cash amount paid per share. Otherwise, the share price shall be the average of the Closing Sale Prices of our common stock on the five trading days prior to but not including the effective date of the non-stock change in control.

The share prices set forth in the first row of the table below (*i.e.*, column headers) will be adjusted as of any date on which the Base Conversion Price of the Notes is adjusted, as described above under Conversion Price Adjustments. The adjusted share prices will equal the share prices applicable immediately prior to such adjustment, divided by a fraction, the numerator of which is the Base Conversion Price immediately prior to the adjustment giving rise to the share price adjustment and the denominator of which is the Base Conversion Price as so adjusted. The number of additional shares will be adjusted in the same manner as the Base Conversion Rate as set forth under Conversion Price Adjustments above. On July 16, 2007, we paid a \$0.0675 per share quarterly cash dividend on our common stock to stockholders of record on July 2, 2007, and, in accordance with the preceding sentences of this paragraph, we adjusted the share prices and numbers of additional shares to give effect to such dividend.

The following table sets forth the increase in the Applicable Conversion Rate, expressed as a number of additional shares to be received per \$1,000 principal amount of Notes.

|                       | Share Price |           |           |           |           |           |           |           |           |           |            |            |            |            |
|-----------------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|
|                       | \$34.3876   | \$39.9973 | \$44.9969 | \$49.9966 | \$54.9962 | \$59.9959 | \$69.9952 | \$79.9945 | \$89.9938 | \$99.9932 | \$124.9914 | \$149.9897 | \$174.9880 | \$199.9863 |
| <b>Effective Date</b> |             |           |           |           |           |           |           |           |           |           |            |            |            |            |
| <b>May 10, 2007</b>   | 9.6934      | 8.3974    | 7.6788    | 7.2115    | 6.3050    | 5.3489    | 3.9551    | 3.0018    | 2.3184    | 1.8105    | 0.9952     | 0.5389     | 0.2722     | 0.1169     |
| <b>May 15, 2008</b>   | 9.6934      | 8.1687    | 7.4322    | 6.9639    | 6.0659    | 5.1233    | 3.7625    | 2.8418    | 2.1872    | 1.7037    | 0.9320     | 0.5020     | 0.2513     | 0.1058     |
| <b>May 15, 2009</b>   | 9.6934      | 7.9136    | 7.1526    | 6.6806    | 5.7910    | 4.8634    | 3.5401    | 2.6575    | 2.0365    | 1.5814    | 0.8602     | 0.4604     | 0.2279     | 0.0935     |
| <b>May 15, 2010</b>   | 9.6934      | 7.6327    | 6.8374    | 6.3573    | 5.4754    | 4.5641    | 3.2838    | 2.4454    | 1.8639    | 1.4420    | 0.7797     | 0.4143     | 0.2024     | 0.0803     |
| <b>May 15, 2011</b>   | 9.6934      | 7.3224    | 6.4794    | 5.9855    | 5.1098    | 4.2164    | 2.9863    | 2.2004    | 1.6659    | 1.2833    | 0.6896     | 0.3639     | 0.1750     | 0.0666     |
| <b>May 15, 2012</b>   | 9.6934      | 6.9774    | 6.0683    | 5.5522    | 4.6813    | 3.8081    | 2.6382    | 1.9161    | 1.4382    | 1.1026    | 0.5893     | 0.3089     | 0.1456     | 0.0519     |
| <b>May 15, 2013</b>   | 9.6934      | 6.5901    | 5.5907    | 5.0418    | 4.1746    | 3.3261    | 2.2319    | 1.5895    | 1.1808    | 0.9013    | 0.4812     | 0.2513     | 0.1161     | 0.0382     |
| <b>May 15, 2014</b>   | 9.6934      | 6.1606    | 5.0287    | 4.4285    | 3.5625    | 2.7460    | 1.7518    | 1.2124    | 0.8899    | 0.6777    | 0.3647     | 0.1907     | 0.0859     | 0.0247     |
| <b>May 15, 2015</b>   | 9.6934      | 5.6964    | 4.3523    | 3.6643    | 2.7960    | 2.0266    | 1.1798    | 0.7811    | 0.5670    | 0.4339    | 0.2391     | 0.1262     | 0.0549     | 0.0119     |
| <b>May 15, 2016</b>   | 9.6934      | 5.2780    | 3.5146    | 2.6334    | 1.7543    | 1.0790    | 0.4983    | 0.3069    | 0.2218    | 0.1695    | 0.0913     | 0.0481     | 0.0196     | 0.0002     |
| <b>May 15, 2017</b>   | 9.6934      | 5.6031    | 2.8264    | 0.6204    | 0.0000    | 0.0000    | 0.0000    | 0.0000    | 0.0000    | 0.0000    | 0.0000     | 0.0000     | 0.0000     | 0.0000     |

In no event will the Applicable Conversion Rate exceed 29.0802 per \$1,000 principal amount of Notes, subject to adjustment as set forth under Conversion Price Adjustments above.

The exact share prices and effective dates may not be set forth in the table above, in which case if the share price is:

between two share price amounts in the table or the effective date is between two effective dates in the table, the number of additional shares will be determined by a straight-line interpolation between the number of additional shares set forth for the higher and lower share price amounts and the two dates, as applicable, based on a 365-day year;

in excess of \$199.9863 per share (the initial maximum price of \$200.00, as adjusted for the payment of a \$0.0675 per share quarterly cash dividend on our common stock in July 2007) (subject to adjustment in the same manner as the Base Conversion Price), no

## Edgar Filing: NOMAC DRILLING CORP - Form 424B2

increase in the Applicable Conversion Rate will be made; and

less than \$34.3876 per share (the initial minimum price of \$34.39, as adjusted for the payment of the quarterly common stock dividend described above) (subject to adjustment in the same manner as the Base Conversion Price), no increase in the Applicable Conversion Rate will be made.

Our obligations to deliver any additional shares could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

S-40



## **Table of Contents**

### *Conversion Upon a Public Acquirer Change in Control*

Notwithstanding the foregoing, in the case of a non-stock change in control constituting a public acquirer change in control (as defined below) we may, in lieu of adjusting the Applicable Conversion Rate in the manner described above in Adjustment to Shares Delivered Upon Conversion Upon Certain Changes of Control, elect to adjust the related conversion obligation such that, from and after the effective date of such public acquirer change in control, the right to convert a Note will be changed into a right to convert a Note into acquirer common stock (as defined below). We may make such election at any time prior to the twentieth day immediately preceding the proposed effective date of the public acquirer change in control, and if made, such election shall be irrevocable. In the event we make such election, upon conversion we will deliver cash and shares of acquirer common stock, if any, in the same manner described above under Payment Upon Conversion. If we make such an election, on and following the effective date of such transaction:

the Base Conversion Rate will be adjusted by multiplying (A) the Base Conversion Rate in effect immediately prior to the effective date of such public acquirer change in control by (B) a fraction equal to the average of the quotients obtained, for each trading day in the 10 consecutive trading day period commencing on the trading day next succeeding the effective date of such public acquirer change in control (the valuation period), by dividing (i) the acquisition value of our common stock on each such trading day in the valuation period, by (ii) the Closing Sale Price of the acquirer common stock on each such trading day in the valuation period;

the Incremental Share Factor will be adjusted proportionally by adjusting the Incremental Share Factor immediately prior to such transaction on the same basis as the Base Conversion Rate; and

the Applicable Stock Price will be based upon the Closing Sale Price of the acquirer common stock.  
Upon any such adjustment in the Base Conversion Rate, the Base Conversion Price will be adjusted accordingly.

The acquisition value of our common stock means, for each trading day in the valuation period, the value of the consideration paid per share of our common stock in connection with such public acquirer change in control, as follows:

for any cash, 100% of the face amount of such cash;

for any acquirer common stock, 100% of the Closing Sale Price of such acquirer common stock on each such trading day; and

for any other securities, assets or property, 102% of the fair market value of such security, asset or property on each such trading day, as determined by two independent nationally recognized investment banks selected by the Trustee for this purpose.

After the adjustment of the Applicable Conversion Rate in connection with a public acquirer change in control, the Applicable Conversion Rate will be subject to further similar adjustments in the event that any of the events described above occur thereafter.

A public acquirer change in control is any transaction described in the third bullet point of the definition of Fundamental Change below where the acquirer, or any entity that is a direct or indirect beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the aggregate ordinary voting power of all shares of such acquirer's Capital Stock that are entitled to vote generally in the election of directors, but in each case other than us, has a class of common stock (or depositary shares or receipts in respect thereof) traded on a United States national securities exchange or quoted on the NASDAQ Global Market or NASDAQ Global Select Market or which will be so traded or quoted when issued or exchanged in connection with such change in control. We refer to such acquirer's or other entity's class of common stock traded (or depositary shares or receipts in respect thereof) on a United States national securities exchange or quoted on the NASDAQ Global Market or NASDAQ Global Select Market or which will be so traded or quoted when issued or exchanged in connection with such change in control as the acquirer common stock.



## **Table of Contents**

### **Optional Redemption of the Notes**

Beginning on May 15, 2017, we may redeem the Notes, in whole at any time, or in part from time to time, for cash at a price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest (including contingent interest, if any) up to but not including the date of redemption (unless the redemption date is between a record date and the following interest payment date, in which case we instead will pay any accrued interest to the holder of record as of such record date). We will give not less than 30 days nor more than 60 days notice of redemption by mail to Holders of the Notes.

If we choose to redeem less than all of the Notes at any time, the Trustee will select or cause to be selected the Notes to be redeemed by any method that it deems fair and appropriate. In the event of a partial redemption, the Trustee may select for redemption portions of the principal amount of any Note in principal amounts of \$1,000 and integral multiples thereof.

For a discussion of the tax treatment to a Holder of the Notes upon optional redemption by us, see Material U.S. Federal Income Tax Considerations U.S. Holders Sale, Conversion, Exchange, Redemption or Retirement of the Notes and Non-U.S. Holders Payments with Respect to, and Conversion or Disposition of, the Notes.

### **Mandatory Redemption**

Except as described in this offering memorandum under Repurchase of Notes at the Option of the Holder and Right to Require Repurchase of Notes Upon a Fundamental Change, we are not required to repurchase or redeem the Notes. There are no sinking fund payments.

### **Repurchase of Notes at the Option of the Holder**

A Holder has the right to require us to repurchase all or a portion of its Notes on May 15, 2017, 2022, 2027 and 2032. We will repurchase the Notes as to which these repurchase rights are exercised for an amount of cash equal to 100% of the principal amount of the Notes on the date of repurchase, plus accrued and unpaid interest (including contingent interest, if any) up to but not including the date of repurchase.

We will be required to give notice on a date not less than 30 business days prior to each date of repurchase to the Trustee and all Holders at their addresses shown in the register of the registrar, and to beneficial owners as required by applicable law, stating among other things, the procedures that Holders must follow to require us to repurchase their Notes.

Our ability to repurchase Notes may be limited by the terms of our then existing indebtedness or financing agreements. If we are obligated to repurchase the Notes, we cannot assure you that we will be able to obtain all required consents under our then existing indebtedness or have available funds sufficient to repay indebtedness, if any, that restricts the repurchase of the Notes and to pay the repurchase price for all the Notes we may be required to repurchase. Our ability to pay cash to Holders electing to require us to repurchase the Notes also may be limited by our then existing financial resources. We cannot assure you that sufficient funds will be available when necessary to make any required repurchases. We would need to seek third-party financing to the extent we do not have available funds to meet our repurchase obligations. However, there can be no assurance that we would be able to obtain any such financing on acceptable terms or at all. See Risk Factors Risks Related to the Notes We may be unable to repurchase your notes as required under the indenture upon a fundamental change or on the specified dates at the option of the holder or pay you cash upon conversion of your notes.

No Notes may be repurchased at the option of Holders if there has occurred and is continuing an Event of Default with respect to the Notes, other than a default in the payment of the repurchase price with respect to such Notes.

---

**Table of Contents**

**Right to Require Repurchase of Notes Upon a Fundamental Change**

If a Fundamental Change (as defined below) occurs, each Holder of Notes may require that we repurchase the Holder's Notes on the date fixed by us that is not less than 30 days nor more than 45 days after we give notice of the Fundamental Change. We will repurchase the Notes for an amount of cash equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest (including contingent interest, if any) up to but not including the date of repurchase (unless the repurchase date is between a record date and the following interest payment date, in which case we instead will pay any accrued interest to the holder of record as of such record date).

Fundamental Change means the occurrence of one or more of the following events:

the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of our assets to any person or group (as such term is used in Section 13(d)(3) of the Exchange Act);

the adoption of a plan, relating to the liquidation or dissolution of the Company;

the acquisition, directly or indirectly, by any Person or group (as such term is used in Section 13(d)(3) of the Exchange Act), of beneficial ownership (as defined in Rule 13d-3 under the Exchange Act, except that such Person shall be deemed to have beneficial ownership of all shares that any such Person has the right to acquire, whether such right is exercisable immediately or only after passage of time) of more than 50% of the aggregate voting power of our Voting Stock (for the purposes of this provision, such other Person or group shall be deemed to beneficially own any Voting Stock of a specified corporation held by a parent corporation, if such other person or group is the beneficial owner (as defined above), directly or indirectly, of more than 35% of the voting power of the Voting Stock of such parent corporation); or

during any period of two consecutive years, individuals who at the beginning of such period constituted our board of directors (together with any new directors whose election by such board of directors or whose nomination for election by our shareholders was approved by a vote of 66 2/3% of our directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of our board of directors then in office; or

our common stock ceases to be listed on a national securities exchange or quoted on the NASDAQ Global Market or NASDAQ Global Select Market or another over-the-counter market in the United States.

However, a Fundamental Change will not be deemed to have occurred in the case of a merger or consolidation, if at least 90% of the consideration (excluding cash payments for fractional shares and cash payments pursuant to dissenters' appraisal rights) in the merger or consolidation consists of common stock (or depositary shares or receipts in respect thereof) of a United States company traded on a national securities exchange or quoted on the NASDAQ Global Market or NASDAQ Global Select Market (or which will be so traded or quoted when issued or exchanged in connection with such transaction) (and as a result of such merger or consolidation the Notes are convertible into cash and the consideration received by holders of our common stock as set forth under "Conversion Rights Payment Upon Conversion").

The phrase "all or substantially all" of our assets is likely to be interpreted by reference to applicable state law at the relevant time, and will be dependent on the facts and circumstances existing at such time. As a result, there may be a degree of uncertainty in ascertaining whether a sale, lease or transfer is of "all or substantially all" of our assets.

On or before the 30th day after a Fundamental Change, we must mail to the Trustee and all Holders of the Notes a notice of the occurrence of the Fundamental Change offer, stating:

the repurchase date;



## **Table of Contents**

the date by which the repurchase right must be exercised;

the repurchase price for the Notes; and

the procedures which a Holder of Notes must follow to exercise the repurchase right.

The effect of these provisions granting the Holders the right to require us to repurchase the Notes upon the occurrence of a Fundamental Change may make it more difficult for any person or group to acquire control of us or to effect a business combination with us. Our ability to pay cash to Holders of Notes following the occurrence of a Fundamental Change may be limited by our then existing indebtedness, financing agreements or financial resources. We cannot assure you that sufficient funds will be available when necessary to make any required repurchases. See **Risk Factors** **Risks Related to the Notes** We may be unable to repurchase your notes as required under the indenture upon a fundamental change or on the specified dates at the option of the holder or pay you cash upon conversion of your notes.

Our obligation to make a repurchase in the event of a Fundamental Change will be satisfied if a third party makes the Fundamental Change offer in the manner and at the times and otherwise in compliance in all material respects with the requirements applicable to a Fundamental Change offer made by us and purchases all Notes properly tendered and not withdrawn under the Fundamental Change offer.

If a Fundamental Change occurs and the Holders exercise their rights to require us to repurchase Notes, we intend to comply with applicable tender offer rules under the Exchange Act with respect to any repurchase.

### **Procedures Upon Repurchase of Notes at the Option of Holder or Upon a Fundamental Change**

On or prior to the date of repurchase, we will deposit with a paying agent an amount of money sufficient to pay the aggregate repurchase price of the Notes which is to be paid on the date of repurchase. Payment of the repurchase price for the Notes will be made promptly following the later of the date of repurchase and the time of delivery of the Notes.

If the paying agent holds money sufficient to pay the repurchase price of the Notes on the business day following the date of repurchase in accordance with the terms of the Indenture, then, immediately after the date of repurchase, the Notes will cease to be outstanding, whether or not the Notes are delivered to the paying agent. Thereafter, all other rights of the Holder shall terminate, other than the right to receive the repurchase price upon delivery of the Notes.

For a discussion of the tax treatment of a Holder exercising the right to require us to repurchase Notes, see **Material U.S. Federal Income Tax Considerations** **U.S. Holders** **Sale, Conversion, Exchange, Redemption or Retirement of the Notes** and **Non-U.S. Holders** **Payments with Respect to, and Conversion or Disposition of, the Notes**.