UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

â˜’ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2019

â˜ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 1-13726

CHESAPEAKE ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Oklahoma	**73-1395733**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6100 North Western Avenue, Oklahoma City, Oklahoma	**73118**
(Address of principal executive offices)	(Zip Code)

(405) 848-8000

(Registrantâ€™s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.01	CHK	New York Stock Exchange
6.625% Senior Notes due 2020	CHK20A	New York Stock Exchange
6.875% Senior Notes due 2020	CHK20	New York Stock Exchange
6.125% Senior Notes due 2021	CHK21	New York Stock Exchange
5.375% Senior Notes due 2021	CHK21A	New York Stock Exchange
4.875% Senior Notes due 2022	CHK22	New York Stock Exchange
5.75% Senior Notes due 2023	CHK23	New York Stock Exchange
4.5% Cumulative Convertible Preferred Stock	CHK Pr D	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes â˜’ No â˜

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Â§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes â˜’ No â˜

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and â€œemerging growth companyâ€ in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer â˜’ Accelerated Filer â˜ Non-accelerated Filer â˜

Smaller Reporting Company â˜ Emerging Growth Company â˜

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. â˜

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes â˜ No â˜’

As of October 31, 2019, there were 1,954,162,667 shares of our $0.01 par value common stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2019	December 31, 2018
	($ in millions)	
CURRENT ASSETS:		
Cash and cash equivalents ($2 and $1 attributable to our VIE)	$ 14	$ 4
Accounts receivable, net	977	1,247
Short-term derivative assets	272	209
Other current assets	140	138
Total Current Assets	1,403	1,598
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, at cost based on successful efforts accounting:		
Proved oil and natural gas properties ($755 and $755 attributable to our VIE)	30,288	25,407
Unproved properties	2,200	1,561
Other property and equipment	1,810	1,721
Total Property and Equipment, at Cost	34,298	28,689
Less: accumulated depreciation, depletion and amortization (($711) and ($707) attributable to our VIE)	(19,432)	(17,886)
Property and equipment held for sale, net	10	15
Total Property and Equipment, Net	14,876	10,818
LONG-TERM ASSETS:		
Long-term derivative assets	51	76
Other long-term assets	249	243
TOTAL ASSETS	$ 16,579	$ 12,735

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS â€“ (Continued)
(Unaudited)

	September 30, 2019	December 31, 2018
	($ in millions)	
CURRENT LIABILITIES:		
Accounts payable	$ 526	$ 763
Current maturities of long-term debt, net	208	381
Accrued interest	124	141
Short-term derivative liabilities	â€”	3
Other current liabilities ($1 and $2 attributable to our VIE)	1,490	1,599
Total Current Liabilities	2,348	2,887
LONG-TERM LIABILITIES:		
Long-term debt, net	9,133	7,341
Asset retirement obligations, net of current portion	177	155
Other long-term liabilities	186	219
Total Long-Term Liabilities	9,496	7,715
CONTINGENCIES AND COMMITMENTS (Note 7)		
EQUITY:		
Chesapeake Stockholdersâ€™ Equity:		
Preferred stock, $0.01 par value, 20,000,000 shares authorized: 5,563,458 and 5,603,458 shares outstanding	1,631	1,671
Common stock, $0.01 par value, 3,000,000,000 and 2,000,000,000 shares authorized: 1,954,150,951 and 913,715,512 shares issued	19	9
Additional paid-in capital	16,975	14,378
Accumulated deficit	(13,896)	(13,912)
Accumulated other comprehensive income (loss)	3	(23)
Less: treasury stock, at cost; 5,623,592 and 3,246,553 common shares	(36)	(31)
Total Chesapeake Stockholdersâ€™ Equity	4,696	2,092
Noncontrolling interests	39	41
Total Equity	4,735	2,133
TOTAL LIABILITIES AND EQUITY	$ 16,579	$ 12,735

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018*	2019	2018*
	($ in millions except per share data)			
REVENUES AND OTHER:				
Oil, natural gas and NGL	$ 1,170	$ 1,199	$ 3,553	$ 3,424
Marketing	889	1,219	3,038	3,738
Total Revenues	2,059	2,418	6,591	7,162
Other	15	16	45	48
Gains (losses) on sales of assets	13	(10)	33	27
Total Revenues and Other	2,087	2,424	6,669	7,237
OPERATING EXPENSES:				
Oil, natural gas and NGL production	155	132	453	417
Oil, natural gas and NGL gathering, processing and transportation	270	364	815	1,060
Production taxes	35	34	109	91
Exploration	17	22	56	123
Marketing	901	1,238	3,071	3,798
General and administrative	66	81	258	273
Restructuring and other termination costs	â€”	â€”	â€”	38
Provision for legal contingencies, net	â€”	8	3	17
Depreciation, depletion and amortization	573	405	1,672	1,335
Impairments	9	58	11	122
Other operating (income) expense	15	â€”	79	(1)
Total Operating Expenses	2,041	2,342	6,527	7,273
INCOME (LOSS) FROM OPERATIONS	46	82	142	(36)
OTHER INCOME (EXPENSE):				
Interest expense	(177)	(165)	(513)	(482)
Gains (losses) on investments	(4)	â€”	(28)	139
Gains (losses) on purchases or exchanges of debt	70	(68)	70	(68)
Other income	3	6	30	62
Total Other Expense	(108)	(227)	(441)	(349)
LOSS BEFORE INCOME TAXES	(62)	(145)	(299)	(385)
Income tax expense (benefit)	(1)	1	(315)	(8)
NET INCOME (LOSS)	(61)	(146)	16	(377)
Net income attributable to noncontrolling interests	â€”	â€”	â€”	(1)
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	(61)	(146)	16	(378)
Preferred stock dividends	(23)	(23)	(69)	(69)
Loss on exchange of preferred stock	(17)	â€”	(17)	â€”
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (101)	$ (169)	$ (70)	$ (447)
LOSS PER COMMON SHARE:				
Basic	$ (0.06)	$ (0.19)	$ (0.04)	$ (0.49)
Diluted	$ (0.06)	$ (0.19)	$ (0.04)	$ (0.49)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):				
Basic	1,698	910	1,570	909
Diluted	1,698	910	1,570	909

* Financial information for 2018 has been recast to reflect the retrospective application of the successful efforts method of accounting. See Note 1.

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018***	**2019**	**2018***
	($ in millions)			
NET INCOME (LOSS)	$ (61)	$ (146)	$ 16	$ (377)
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX:				
Unrealized gains on derivative instruments[(a)]	â€”	â€”	â€”	â€”
Reclassification of losses on settled derivative instruments[(a)]	8	8	26	25
Other Comprehensive Income	8	8	26	25
COMPREHENSIVE INCOME (LOSS)	(53)	(138)	42	(352)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	â€”	â€”	â€”	(1)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$ (53)	$ (138)	$ 42	$ (353)

* Financial information for 2018 has been recast to reflect the retrospective application of the successful efforts method of accounting. See Note 1.

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(a) Deferred tax activity incurred in other comprehensive income was offset by a valuation allowance.

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018*
	($ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ 16	$ (377)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	1,672	1,335
Deferred income tax benefit	(314)	(10)
Derivative (gains) losses, net	(137)	500
Cash receipts (payments) on derivative settlements, net	129	(162)
Stock-based compensation	24	25
Gains on sales of assets	(33)	(27)
Impairments	11	122
Exploration	35	81
(Gains) losses on investments	21	(139)
(Gains) losses on purchases or exchanges of debt	(70)	68
Other	42	(90)
Changes in assets and liabilities	(214)	69
Net Cash Provided By Operating Activities	1,182	1,395
CASH FLOWS FROM INVESTING ACTIVITIES:		
Drilling and completion costs	(1,640)	(1,407)
Business combination, net	(353)	â€”
Acquisitions of proved and unproved properties	(31)	(118)
Proceeds from divestitures of proved and unproved properties	110	395
Additions to other property and equipment	(27)	(11)
Proceeds from sales of other property and equipment	6	75
Proceeds from sales of investments	â€”	74
Net Cash Used In Investing Activities	(1,935)	(992)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility borrowings	8,805	9,095
Payments on revolving credit facility borrowings	(7,495)	(9,231)
Proceeds from issuance of senior notes, net	â€”	1,237
Cash paid to purchase debt	(457)	(1,285)
Extinguishment of other financing	â€”	(122)
Cash paid for preferred stock dividends	(69)	(69)
Distributions to noncontrolling interest owners	(2)	(5)
Other	(19)	(24)
Net Cash Provided By (Used In) Financing Activities	763	(404)
Net increase (decrease) in cash and cash equivalents	10	(1)
Cash and cash equivalents, beginning of period	4	5
Cash and cash equivalents, end of period	$ 14	$ 4

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS â€“ (Continued)
(Unaudited)

Supplemental disclosures to the condensed consolidated statements of cash flows are presented below:

	Nine Months Ended September 30,	
	2019	2018*
	($ in millions)	
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	$ 487	$ 527
Income taxes paid, net of refunds received	$ (6)	$ (3)
SUPPLEMENTAL DISCLOSURE OF SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for business combination	$ 2,037	$ â€”
Debt exchanged for common stock	$ 693	$ â€”
Preferred stock exchanged for common stock	$ 40	$ â€”
Change in senior notes exchanged	$ 35	$ â€”
Change in accrued drilling and completion costs	$ 49	$ 142
Change in divested proved and unproved properties	$ (144)	$ (5)

* Financial information for 2018 has been recast to reflect the retrospective application of the successful efforts method of accounting. See Note 1.

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERSâ€™ EQUITY
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018*	2019	2018*
	($ in millions)			
PREFERRED STOCK:				
Balance, beginning of period	$ 1,671	$ 1,671	$ 1,671	$ 1,671
Exchange of 40,000, 0, 40,000 and 0 shares of preferred stock for common stock	(40)	â€”	(40)	â€”
Balance, end of period	1,631	1,671	1,631	1,671
COMMON STOCK:				
Balance, beginning of period	16	9	9	9
Common shares issued for WildHorse Merger	â€”	â€”	7	â€”
Exchange of senior notes and convertible senior notes	3	â€”	3	â€”
Balance, end of period	19	9	19	9
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	16,380	14,408	14,378	14,437
Common shares issued for WildHorse Merger	â€”	â€”	2,030	â€”
Exchange of preferred stock for 10,367,950, 0 10,367,950 and 0 shares of common stock	40	â€”	40	â€”
Exchange of senior notes for 235,563,519, 0 235,563,519 and 0 shares of common stock	438	â€”	438	â€”
Exchange of convertible senior notes for 73,389,094, 0, 73,389,094 and 0 shares of common stock	134	â€”	134	â€”
Equity component of convertible notes repurchases	(2)	â€”	(2)	â€”
Stock-based compensation	8	9	26	26
Dividends on preferred stock	(23)	(23)	(69)	(69)
Balance, end of period	16,975	14,394	16,975	14,394
ACCUMULATED DEFICIT:				
Balance, beginning of period	(13,835)	(14,370)	(13,912)	(14,130)
Net income (loss) attributable to Chesapeake	(61)	(146)	16	(378)
Cumulative effect of accounting change	â€”	â€”	â€”	(8)
Balance, end of period	(13,896)	(14,516)	(13,896)	(14,516)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):				
Balance, beginning of period	(5)	(40)	(23)	(57)
Hedging activity	8	8	26	25
Balance, end of period	3	(32)	3	(32)

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERSâ€™ EQUITY - (Continued)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018*	2019	2018*
	($ in millions)			
TREASURY STOCK â€“ COMMON:				
Balance, beginning of period	(36)	(31)	(31)	(31)
Purchase of 53,337, 30,509, 2,673,903, and 1,499,033 shares for company benefit plans	â€”	â€”	(7)	(4)
Release of 37,301, 41,617, 296,864 and 431,474 shares from company benefit plans	â€”	â€”	2	4
Balance, end of period	(36)	(31)	(36)	(31)
TOTAL CHESAPEAKE STOCKHOLDERSâ€™ EQUITY	4,696	1,495	4,696	1,495
NONCONTROLLING INTERESTS:				
Balance, beginning of period	39	42	41	44
Net income attributable to noncontrolling interests	â€”	â€”	â€”	1
Distributions to noncontrolling interest owners	â€”	(2)	(2)	(5)
Balance, end of period	39	40	39	40
TOTAL EQUITY	$ 4,735	$ 1,535	$ 4,735	$ 1,535

* Financial information for prior periods has been recast to reflect the retrospective application of the successful efforts method of accounting. See Note 1.

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

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of Chesapeake were prepared in accordance with accounting principles generally accepted in the United States of America (â€œGAAPâ€) and the rules and regulations of the SEC. Pursuant to such rules and regulations, certain disclosures have been condensed or omitted.

This Form 10-Q relates to the three and nine months ended September 30, 2019 (the â€œCurrent Quarterâ€ and the â€œCurrent Periodâ€, respectively) and the three and nine months ended September 30, 2018 (the â€œPrior Quarterâ€ and the â€œPrior Periodâ€, respectively). Our Form 8-K dated May 9, 2019 should be read in conjunction with this Form 10-Q. The accompanying condensed consolidated financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of our condensed consolidated financial statements and accompanying notes and include the accounts of our direct and indirect wholly owned subsidiaries and entities in which we have a controlling financial interest. Intercompany accounts and balances have been eliminated.

Recast Financial Information for Change in Accounting Principle

In the first quarter of 2019, we voluntarily changed our method of accounting for oil and natural gas exploration and development activities from the full cost method to the successful efforts method. Accordingly, financial information for prior periods has been recast to reflect retrospective application of the successful efforts method. Although the full cost method of accounting for oil and natural gas exploration and development activities continues to be an accepted alternative, the successful efforts method of accounting is the generally preferred method of the SEC and, because it is more widely used in the industry, we expect the change to improve the comparability of our financial statements to our peers. We also believe the successful efforts method provides a more representational depiction of assets and operating results and provides for our investments in oil and natural gas properties to be assessed for impairment in accordance with Accounting Standards Codification (ASC) Topic 360, *Property Plant and Equipment,* rather than valuations based on prices and costs prescribed under the full cost method as of the balance sheet date. For detailed information regarding the effects of the change to the successful efforts method, see Note 2.

Oil and Natural Gas Properties

We follow the successful efforts method of accounting for our oil and natural gas properties. Under this method, exploration costs, such as exploratory geological and geophysical costs, expiration of unproved leasehold, delay rentals and exploration overhead are expensed as incurred. All costs related to production, general corporate overhead and similar activities are also expensed as incurred. All property acquisition costs and development costs are capitalized when incurred.

Exploratory drilling costs are initially capitalized, or suspended, pending the determination of proved reserves. If proved reserves are found, drilling costs remain capitalized and are classified as proved properties. Costs of unsuccessful wells are charged to exploration expense. For exploratory wells that find reserves that cannot be classified as proved when drilling is completed, costs continue to be capitalized as suspended exploratory drilling costs if there have been sufficient reserves found to justify completion as a producing well and sufficient progress is being made in assessing the reserves and the economic and operational viability of the project. If we determine that future appraisal drilling or development activities are unlikely to occur, associated suspended exploratory well costs are expensed. In some instances, this determination may take longer than one year. We review the status of all suspended exploratory drilling costs quarterly. Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of oil and natural gas, are capitalized.

Costs of drilling and equipping successful wells, costs to construct or acquire facilities, and associated asset retirement costs are depreciated using the unit-of-production (UOP) method based on total estimated proved developed oil and gas reserves. Costs of acquiring proved properties, including leasehold acquisition costs transferred from unproved properties, are depleted using the UOP method based on total estimated proved developed and undeveloped reserves.

Proceeds from the sales of individual oil and natural gas properties and the capitalized costs of individual properties sold or abandoned are credited and charged, respectively, to accumulated depreciation, depletion and amortization, if doing so does not materially impact the depletion rate of an amortization base. Generally, no gain or loss is recognized until an entire amortization base is sold. However, a gain or loss is recognized from the sale of less than an entire amortization base if the disposition is significant enough to materially impact the depletion rate of the remaining properties in the amortization base.

When circumstances indicate that the carrying value of proved oil and gas properties may not be recoverable, we compare unamortized capitalized costs to the expected undiscounted pre-tax future cash flows for the associated assets grouped at the lowest level for which identifiable cash flows are independent of cash flows of other assets. If the expected undiscounted pre-tax future cash flows, based on our estimate of future crude oil and natural gas prices, operating costs, anticipated production from proved reserves and other relevant data, are lower than the unamortized capitalized costs, the capitalized costs are reduced to fair value. Fair value is generally estimated using the income approach described in the ASC 820, *Fair Value Measurements*. If applicable, we utilize prices and other relevant information generated by market transactions involving assets and liabilities that are identical or comparable to the item being measured as the basis for determining fair value. The expected future cash flows used for impairment reviews and related fair value measurements are typically based on judgmental assessments of future production volumes, commodity prices, operating costs, and capital investment plans, considering all available information at the date of review. These assumptions are applied to develop future cash flow projections that are then discounted to estimated fair value, using a discount rate believed to be consistent with those applied by market participants. We have classified these fair value measurements as Level 3 in the fair value hierarchy.

Capitalized Interest

Interest from external borrowings is capitalized on significant investments in major development projects until the asset is ready for service using the weighted average borrowing rate of outstanding borrowings. Capitalized interest is determined by multiplying our weighted average borrowing cost on debt by the average amount of qualifying costs incurred. Capitalized interest is depreciated over the useful lives of the assets in the same manner as the depreciation of the underlying asset.

Recently Issued Accounting Standards

In February 2016, the FASB issued Auditing Standards Update (ASU) 2016-02, *Leases (Topic 842)* (â€œASC 842â€), which requires lessees to recognize a lease liability and a right-of-use (ROU) asset on the balance sheet for all leases, including operating leases, with terms in excess of 12 months. As the implicit rate of the lease is not always readily determinable, the company uses its incremental borrowing rate to calculate the present value of lease payments based on information available at the commencement date. Operating ROU assets are included in other long-term assets while operating lease liabilities are included in other current and other long-term liabilities on the condensed consolidated balance sheet. Finance ROU assets are reflected in total property and equipment, net, while finance lease liabilities are included in other current and other long-term liabilities on the condensed consolidated balance sheet.

ASC 842 does not apply to our leases of mineral rights to explore for or use oil and natural gas resources, including the intangible rights to explore for those natural resources and rights to use the land in which those natural resources are contained.

We adopted the new standard on January 1, 2019 and as permitted by ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, we will not adjust comparative-period financial statements and will continue to apply the guidance in Topic 840, including its disclosure requirements, in the comparative periods presented prior to adoption. No cumulative-effect adjustment to retained earnings was required as a result of the modified retrospective approach.

Upon adoption of ASC 842, we made certain elections permitting us to not reassess: (1) whether any expired or existing contracts contained leases (2) the lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. Upon adoption of ASC 842, we also made an election permitting us to continue applying our current policy for land easements. The adoption of ASC 842 did not result in a material impact on our balance sheet, results of operations or cash flows.

Short-term leases will not be recognized on the balance sheet as an asset or a liability, and the related rental expense will be expensed as incurred. We have short-term lease agreements related to most of our drilling rig arrangements and hydraulic fracturing arrangements and some of our compressor rental arrangements.

See Note 9 for further information regarding leases.

2. Change in Accounting Principle

In the first quarter of 2019, we voluntarily changed our method of accounting for oil and natural gas exploration and development activities from the full cost method to the successful efforts method. Accordingly, financial information for prior periods has been recast to reflect retrospective application of the successful efforts method. In general, under successful efforts, exploration costs such as exploratory dry holes, exploratory geophysical and geological costs, delay rentals, unproved leasehold impairments and exploration overhead are charged against earnings as incurred, versus being capitalized under the full cost method of accounting. The successful efforts method also provides for the assessment of potential property impairments by comparing the net carrying value of oil and natural gas properties to associated projected undiscounted pre-tax future net cash flows. If the expected undiscounted pre-tax future net cash flows are lower than the unamortized capitalized costs, the capitalized costs are reduced to fair value. Under the full cost method of accounting, a write-down would be required if the net carrying value of oil and natural gas properties exceeds a full cost ceiling using an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months. In addition, gains or losses, if applicable, are generally recognized on the disposition of oil and natural gas property and equipment under the successful efforts method, as opposed to an adjustment to the net carrying value of the assets remaining under the full cost method. Our condensed consolidated financial statements have been recast to reflect these differences.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS	Three Months Ended September 30, 2019 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
	($ in millions except per share data)		
REVENUES AND OTHER:			
Oil, natural gas and NGL	$ 1,170	$ â€”	$ 1,170
Marketing	889	â€”	889
Total Revenues	2,059	â€”	2,059
Other	â€”	15	15
Gains on sales of assets	â€”	13	13
Total Revenues and Other	2,059	28	2,087
OPERATING EXPENSES:			
Oil, natural gas and NGL production	155	â€”	155
Oil, natural gas and NGL gathering, processing and transportation	270	â€”	270
Production taxes	35	â€”	35
Exploration	â€”	17	17
Marketing	901	â€”	901
General and administrative	52	14	66
Depreciation, depletion and amortization	421	152	573
Impairments	1	8	9
Other operating expense	15	â€”	15
Total Operating Expenses	1,850	191	2,041
INCOME FROM OPERATIONS	209	(163)	46
OTHER INCOME (EXPENSE):			
Interest expense	(134)	(43)	(177)
Losses on investments	(4)	â€”	(4)
Gains on purchases or exchanges of debt	70	â€”	70
Other income	2	1	3
Total Other Expense	(66)	(42)	(108)
INCOME (LOSS) BEFORE INCOME TAXES	143	(205)	(62)
Income tax benefit	(1)	â€”	(1)
NET INCOME (LOSS)	144	(205)	(61)
Net loss attributable to noncontrolling interests	â€”	â€”	â€”
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	144	(205)	(61)
Preferred stock dividends	(23)	â€”	(23)
Loss on exchange of preferred stock	(17)	â€”	(17)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 104	$ (205)	$ (101)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	$ 0.06	$ (0.12)	$ (0.06)
Diluted	$ 0.06	$ (0.12)	$ (0.06)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):			
Basic	1,698	â€”	1,698
Diluted	1,698	â€”	1,698

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS â€“ (Continued)
(Unaudited)

	Three Months Ended September 30, 2018		
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS	**Under Full Cost**	**Successful Efforts Adjustment**	**Under Successful Efforts**
	($ in millions except per share data)		
REVENUES AND OTHER:			
Oil, natural gas and NGL	$ 1,199	$ â€”	$ 1,199
Marketing	1,219	â€”	1,219
Total Revenues	2,418	â€”	2,418
Other	â€”	16	16
Losses on sales of assets	â€”	(10)	(10)
Total Revenues and Other	2,418	6	2,424
OPERATING EXPENSES:			
Oil, natural gas and NGL production	132	â€”	132
Oil, natural gas and NGL gathering, processing and transportation	364	â€”	364
Production taxes	34	â€”	34
Exploration	â€”	22	22
Marketing	1,238	â€”	1,238
General and administrative	66	15	81
Provision for legal contingencies, net	8	â€”	8
Depreciation, depletion and amortization	291	114	405
Impairments	5	53	58
Total Operating Expenses	2,138	204	2,342
INCOME FROM OPERATIONS	280	(198)	82
OTHER INCOME (EXPENSE):			
Interest expense	(127)	(38)	(165)
Losses on purchases or exchanges of debt	(68)	â€”	(68)
Other income	1	5	6
Total Other Expense	(194)	(33)	(227)
INCOME (LOSS) BEFORE INCOME TAXES	86	(231)	(145)
Income tax expense	1	â€”	1
NET INCOME (LOSS)	85	(231)	(146)
Net income attributable to noncontrolling interests	(1)	1	â€”
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	84	(230)	(146)
Preferred stock dividends	(23)	â€”	(23)
Earnings allocated to participating securities	(1)	1	â€”
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 60	$ (229)	$ (169)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	$ 0.07	$ (0.26)	$ (0.19)
Diluted	$ 0.07	$ (0.26)	$ (0.19)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):			
Basic	910	â€”	910
Diluted	911	(1)	910

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS â€“ (Continued)
(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS	Nine Months Ended September 30, 2019 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
	($ in millions except per share data)		
REVENUES AND OTHER:			
Oil, natural gas and NGL	$ 3,553	$ â€”	$ 3,553
Marketing	3,038	â€”	3,038
Total Revenues	6,591	â€”	6,591
Other	â€”	45	45
Gains on sales of assets	â€”	33	33
Total Revenues and Other	6,591	78	6,669
OPERATING EXPENSES:			
Oil, natural gas and NGL production	453	â€”	453
Oil, natural gas and NGL gathering, processing and transportation	815	â€”	815
Production taxes	109	â€”	109
Exploration	â€”	56	56
Marketing	3,071	â€”	3,071
General and administrative	216	42	258
Provision for legal contingencies	3	â€”	3
Depreciation, depletion and amortization	1,197	475	1,672
Gain on sale of oil and natural gas properties	(10)	10	â€”
Impairments	3	8	11
Other operating expense	79	â€”	79
Total Operating Expenses	5,936	591	6,527
INCOME FROM OPERATIONS	655	(513)	142
OTHER INCOME (EXPENSE):			
Interest expense	(400)	(113)	(513)
Losses on investments	(28)	â€”	(28)
Gains on purchases or exchanges of debt	70	â€”	70
Other income	22	8	30
Total Other Expense	(336)	(105)	(441)
INCOME (LOSS) BEFORE INCOME TAXES	319	(618)	(299)
Income tax benefit	(315)	â€”	(315)
NET INCOME	634	(618)	16
Net income attributable to noncontrolling interests	(1)	1	â€”
NET INCOME ATTRIBUTABLE TO CHESAPEAKE	633	(617)	16
Preferred stock dividends	(69)	â€”	(69)
Loss on exchange of preferred stock	(17)	â€”	(17)
Earnings allocated to participating securities	(2)	2	â€”
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 545	$ (615)	$ (70)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	$ 0.35	$ (0.39)	$ (0.04)
Diluted	$ 0.35	$ (0.39)	$ (0.04)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):			
Basic	1,570	â€”	1,570
Diluted	1,570	â€”	1,570

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS â€“ (Continued)
(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS	Nine Months Ended September 30, 2018		
	Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
	($ in millions except per share data)		
REVENUES AND OTHER:			
Oil, natural gas and NGL	$ 3,424	$ â€”	$ 3,424
Marketing	3,738	â€”	3,738
Total Revenues	7,162	â€”	7,162
Other	â€”	48	48
Gains on sales of assets	â€”	27	27
Total Revenues and Other	7,162	75	7,237
OPERATING EXPENSES:			
Oil, natural gas and NGL production	417	â€”	417
Oil, natural gas and NGL gathering, processing and transportation	1,060	â€”	1,060
Production taxes	91	â€”	91
Exploration	â€”	123	123
Marketing	3,798	â€”	3,798
General and administrative	229	44	273
Restructuring and other termination costs	38	â€”	38
Provision for legal contingencies, net	17	â€”	17
Depreciation, depletion and amortization	867	468	1,335
Impairments	51	71	122
Other operating (income) expense	6	(7)	(1)
Total Operating Expenses	6,574	699	7,273
INCOME (LOSS) FROM OPERATIONS	588	(624)	(36)
OTHER INCOME (EXPENSE):			
Interest expense	(367)	(115)	(482)
Gains on investments	139	â€”	139
Losses on purchases or exchanges of debt	(68)	â€”	(68)
Other income	63	(1)	62
Total Other Expense	(233)	(116)	(349)
INCOME (LOSS) BEFORE INCOME TAXES	355	(740)	(385)
Income tax benefit	(8)	â€”	(8)
NET INCOME (LOSS)	363	(740)	(377)
Net income attributable to noncontrolling interests	(3)	2	(1)
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	360	(738)	(378)
Preferred stock dividends	(69)	â€”	(69)
Earnings allocated to participating securities	(3)	3	â€”
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 288	$ (735)	$ (447)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	$ 0.32	$ (0.81)	$ (0.49)
Diluted	$ 0.32	$ (0.81)	$ (0.49)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):			
Basic	909	â€”	909
Diluted	909	â€”	909

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Three Months Ended September 30, 2019 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
NET INCOME (LOSS)	$ 144	$ (205)	$ (61)
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX:			
Unrealized gains on derivative instruments	â€”	â€”	â€”
Reclassification of losses on settled derivative instruments	8	â€”	8
Other Comprehensive Income	8	â€”	8
COMPREHENSIVE INCOME (LOSS)	152	(205)	(53)
COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	â€”	â€”	â€”
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$ 152	$ (205)	$ (53)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Three Months Ended September 30, 2018 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
NET INCOME (LOSS)	$ 85	$ (231)	$ (146)
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX:			
Unrealized gains on derivative instruments	â€”	â€”	â€”
Reclassification of losses on settled derivative instruments	8	â€”	8
Other Comprehensive Income	8	â€”	8
COMPREHENSIVE INCOME (LOSS)	93	(231)	(138)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(1)	1	â€”
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$ 92	$ (230)	$ (138)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Nine Months Ended September 30, 2019 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
NET INCOME	$ 634	$ (618)	$ 16
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX:			
Unrealized gains on derivative instruments	â€”	â€”	â€”
Reclassification of losses on settled derivative instruments	26	â€”	26
Other Comprehensive Income	26	â€”	26
COMPREHENSIVE INCOME	660	(618)	42
COMPREHENSIVE (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(1)	1	â€”
COMPREHENSIVE INCOME ATTRIBUTABLE TO CHESAPEAKE	$ 659	$ (617)	$ 42

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	Nine Months Ended September 30, 2018 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
NET INCOME (LOSS)	$ 363	$ (740)	$ (377)
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX:			
Unrealized gains on derivative instruments	â€”	â€”	â€”
Reclassification of losses on settled derivative instruments	25	â€”	25
Other Comprehensive Income	25	â€”	25
COMPREHENSIVE INCOME (LOSS)	388	(740)	(352)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(3)	2	(1)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$ 385	$ (738)	$ (353)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	Nine Months Ended September 30, 2019 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME	$ 634	$ (618)	$ 16
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation, depletion and amortization	1,197	475	1,672
Deferred income tax benefit	(314)	â€”	(314)
Derivative losses, net	(137)	â€”	(137)
Cash receipts on derivative settlements, net	129	â€”	129
Stock-based compensation	24	â€”	24
Gains on sales of assets	â€”	(33)	(33)
Impairments	3	8	11
Exploration	â€”	35	35
Losses on investments	21	â€”	21
Gains on purchases of debt	(70)	â€”	(70)
Other	33	9	42
Changes in assets and liabilities	(169)	(45)	(214)
Net Cash Provided By Operating Activities	1,351	(169)	1,182
CASH FLOWS FROM INVESTING ACTIVITIES:			
Drilling and completion costs	(1,694)	54	(1,640)
Business combination, net	(353)	â€”	(353)
Acquisitions of proved and unproved properties	(146)	115	(31)
Proceeds from divestitures of proved and unproved properties	110	â€”	110
Additions to other property and equipment	(27)	â€”	(27)
Proceeds from sales of other property and equipment	6	â€”	6
Net Cash Used In Investing Activities	(2,104)	169	(1,935)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facility borrowings	8,805	â€”	8,805
Payments on revolving credit facility borrowings	(7,495)	â€”	(7,495)
Cash paid to purchase debt	(457)	â€”	(457)
Cash paid for preferred stock dividends	(69)	â€”	(69)
Distributions to noncontrolling interest owners	(2)	â€”	(2)
Other	(19)	â€”	(19)
Net Cash Provided By Financing Activities	763	â€”	763
Net increase in cash and cash equivalents	10	â€”	10
Cash and cash equivalents, beginning of period	4	â€”	4
Cash and cash equivalents, end of period	$ 14	$ â€”	$ 14

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS â€“ (Continued)
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS	Nine Months Ended September 30, 2018 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
	($ in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME (LOSS)	$ 363	$ (740)	$ (377)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation, depletion and amortization	867	468	1,335
Deferred income tax benefit	(10)	â€”	(10)
Derivative losses, net	500	â€”	500
Cash payments on derivative settlements, net	(162)	â€”	(162)
Stock-based compensation	25	â€”	25
Gains on sales of assets	â€”	(27)	(27)
Impairments	51	71	122
Exploration	â€”	81	81
Gains on investments	(139)	â€”	(139)
Losses on purchases or exchanges of debt	68	â€”	68
Other	(83)	(7)	(90)
Changes in assets and liabilities	116	(47)	69
Net Cash Provided By Operating Activities	1,596	(201)	1,395
CASH FLOWS FROM INVESTING ACTIVITIES:			
Drilling and completion costs	(1,482)	75	(1,407)
Acquisitions of proved and unproved properties	(244)	126	(118)
Proceeds from divestitures of proved and unproved properties	395	â€”	395
Additions to other property and equipment	(11)	â€”	(11)
Proceeds from sales of other property and equipment	75	â€”	75
Proceeds from sales of investments	74	â€”	74
Net Cash Used In Investing Activities	(1,193)	201	(992)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facility borrowings	9,095	â€”	9,095
Payments on revolving credit facility borrowings	(9,231)	â€”	(9,231)
Proceeds from issuance of senior notes, net	1,237	â€”	1,237
Cash paid to purchase debt	(1,285)	â€”	(1,285)
Extinguishment of other financing	(122)	â€”	(122)
Cash paid for preferred stock dividends	(69)	â€”	(69)
Distributions to noncontrolling interest owners	(5)	â€”	(5)
Other	(24)	â€”	(24)
Net Cash Used In Financing Activities	(404)	â€”	(404)
Net decrease in cash and cash equivalents	(1)	â€”	(1)
Cash and cash equivalents, beginning of period	5	â€”	5
Cash and cash equivalents, end of period	$ 4	$ â€”	$ 4

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERSâ€™ EQUITY	Three Months Ended September 30, 2019		
	Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
PREFERRED STOCK:			
Balance, beginning of period	$ 1,671	$ â€”	$ 1,671
Exchange of 40,000 shares of preferred stock for common stock	(40)	â€”	(40)
Balance, end of period	1,631	â€”	1,631
COMMON STOCK:			
Balance, beginning of period	16	â€”	16
Exchange of senior notes and convertible senior notes	3	â€”	3
Exchange of preferred stock	â€”	â€”	â€”
Balance, end of period	19	â€”	19
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of period	16,380	â€”	16,380
Exchange of preferred stock for 10,367,950 shares of common stock	40	â€”	40
Exchange of senior notes for 235,563,519 shares of common stock	438	â€”	438
Exchange of convertible senior notes for 73,389,094 shares of common stock	134	â€”	134
Equity component of convertible notes repurchases	(2)	â€”	(2)
Stock-based compensation	8	â€”	8
Dividends on preferred stock	(23)	â€”	(23)
Balance, end of period	16,975	â€”	16,975
ACCUMULATED DEFICIT:			
Balance, beginning of period	(15,171)	1,336	(13,835)
Net income (loss) attributable to Chesapeake	144	(205)	(61)
Balance, end of period	(15,027)	1,131	(13,896)
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance, beginning of period	(5)	â€”	(5)
Hedging activity	8	â€”	8
Balance, end of period	3	â€”	3
TREASURY STOCK â€“ COMMON:			
Balance, beginning of period	(36)	â€”	(36)
Purchase of 53,337 shares for company benefit plans	â€”	â€”	â€”
Release of 37,301 shares from company benefit plans	â€”	â€”	â€”
Balance, end of period	(36)	â€”	(36)
TOTAL CHESAPEAKE STOCKHOLDERSâ€™ EQUITY	3,565	1,131	4,696
NONCONTROLLING INTERESTS:			
Balance, beginning of period	122	(83)	39
Net loss attributable to noncontrolling interests	â€”	â€”	â€”
Distributions to noncontrolling interest owners	â€”	â€”	â€”
Balance, end of period	122	(83)	39
TOTAL EQUITY	$ 3,687	$ 1,048	$ 4,735

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
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(Unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERSâ€™ EQUITY	Three Months Ended September 30, 2018		
	Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
PREFERRED STOCK:			
Balance, beginning and end of period	$ 1,671	$ â€”	$ 1,671
COMMON STOCK:			
Balance, beginning of period	9	â€”	9
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of period	14,408	â€”	14,408
Stock-based compensation	9	â€”	9
Dividends on preferred stock	(23)	â€”	(23)
Balance, end of period	14,394	â€”	14,394
ACCUMULATED DEFICIT:			
Balance, beginning of period	(16,257)	1,887	(14,370)
Net income (loss) attributable to Chesapeake	84	(230)	(146)
Balance, end of period	(16,173)	1,657	(14,516)
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance, beginning of period	(40)	â€”	(40)
Hedging activity	8	â€”	8
Balance, end of period	(32)	â€”	(32)
TREASURY STOCK â€“ COMMON:			
Balance, beginning of period	(31)	â€”	(31)
Purchase of 30,509 shares for company benefit plans	â€”	â€”	â€”
Release of 41,617 shares from company benefit plans	â€”	â€”	â€”
Balance, end of period	(31)	â€”	(31)
TOTAL CHESAPEAKE STOCKHOLDERSâ€™ EQUITY (DEFICIT)	(162)	1,657	1,495
NONCONTROLLING INTERESTS:			
Balance, beginning of period	123	(81)	42
Net income attributable to noncontrolling interests	1	(1)	â€”
Distributions to noncontrolling interest owners	(2)	â€”	(2)
Balance, end of period	122	(82)	40
TOTAL EQUITY (DEFICIT)	$ (40)	$ 1,575	$ 1,535

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
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CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERSâ€™ EQUITY	Nine Months Ended September 30, 2019 Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
PREFERRED STOCK:			
Balance, beginning of period	$ 1,671	$ â€”	$ 1,671
Exchange of 40,000 shares of preferred stock for common stock	(40)	â€”	(40)
Balance, end of period	1,631	â€”	1,631
COMMON STOCK:			
Balance, beginning of period	9	â€”	9
Common shares issued for WildHorse Merger	7	â€”	7
Exchange of senior notes and convertible senior notes	3	â€”	3
Exchange of preferred stock	â€”	â€”	â€”
Balance, end of period	19	â€”	19
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of period	14,378	â€”	14,378
Common shares issued for WildHorse Merger	2,030	â€”	2,030
Exchange of preferred stock for 10,367,950 shares of common stock	40	â€”	40
Exchange of senior notes for 235,563,519 shares of common stock	438	â€”	438
Exchange of convertible senior notes for 73,389,094 shares of common stock	134	â€”	134
Equity component of convertible notes repurchases	(2)	â€”	(2)
Stock-based compensation	26	â€”	26
Dividends on preferred stock	(69)	â€”	(69)
Balance, end of period	16,975	â€”	16,975
ACCUMULATED DEFICIT:			
Balance, beginning of period	(15,660)	1,748	(13,912)
Net income attributable to Chesapeake	633	(617)	16
Balance, end of period	(15,027)	1,131	(13,896)
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance, beginning of period	(23)	â€”	(23)
Hedging activity	26	â€”	26
Balance, end of period	3	â€”	3
TREASURY STOCK â€“ COMMON:			
Balance, beginning of period	(31)	â€”	(31)
Purchase of 2,673,903 shares for company benefit plans	(7)	â€”	(7)
Release of 296,864 shares from company benefit plans	2	â€”	2
Balance, end of period	(36)	â€”	(36)
TOTAL CHESAPEAKE STOCKHOLDERSâ€™ EQUITY	3,565	1,131	4,696
NONCONTROLLING INTERESTS:			
Balance, beginning of period	123	(82)	41
Net income (loss) attributable to noncontrolling interests	1	(1)	â€”
Distributions to noncontrolling interest owners	(2)	â€”	(2)
Balance, end of period	122	(83)	39
TOTAL EQUITY	$ 3,687	$ 1,048	$ 4,735

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERSâ€™ EQUITY	Nine Months Ended September 30, 2018		
	Under Full Cost	Successful Efforts Adjustment	Under Successful Efforts
		($ in millions)	
PREFERRED STOCK:			
Balance, beginning and end of period	$ 1,671	$ â€”	$ 1,671
COMMON STOCK:			
Balance, beginning and end of period	9	â€”	9
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of period	14,437	â€”	14,437
Stock-based compensation	26	â€”	26
Dividends on preferred stock	(69)	â€”	(69)
Balance, end of period	14,394	â€”	14,394
ACCUMULATED DEFICIT:			
Balance, beginning of period	(16,525)	2,395	(14,130)
Net income (loss) attributable to Chesapeake	360	(738)	(378)
Cumulative effect of accounting change	(8)	â€”	(8)
Balance, end of period	(16,173)	1,657	(14,516)
ACCUMULATED OTHER COMPREHENSIVE LOSS:			
Balance, beginning of period	(57)	â€”	(57)
Hedging activity	25	â€”	25
Balance, end of period	(32)	â€”	(32)
TREASURY STOCK â€“ COMMON:			
Balance, beginning of period	(31)	â€”	(31)
Purchase of 1,499,033 shares for company benefit plans	(4)	â€”	(4)
Release of 431,474 shares from company benefit plans	4	â€”	4
Balance, end of period	(31)	â€”	(31)
TOTAL CHESAPEAKE STOCKHOLDERSâ€™ EQUITY (DEFICIT)	(162)	1,657	1,495
NONCONTROLLING INTERESTS:			
Balance, beginning of period	124	(80)	44
Net income attributable to noncontrolling interests	3	(2)	1
Distributions to noncontrolling interest owners	(5)	â€”	(5)
Balance, end of period	122	(82)	40
TOTAL EQUITY (DEFICIT)	$ (40)	$ 1,575	$ 1,535

3. Oil and Natural Gas Property Transactions

WildHorse Acquisition

On February 1, 2019, we acquired WildHorse Resource Development Corporation (â€œWildHorseâ€), an oil and gas company with operations in the Eagle Ford Shale and Austin Chalk formations in southeast Texas for approximately 717.4 million shares of our common stock and $381 million in cash. We funded the cash portion of the consideration through borrowings under the Chesapeake revolving credit facility. In connection with the closing, we acquired all of WildHorseâ€™s debt. See Note 6 for additional information on the acquired debt.

Purchase Price Allocation

We have accounted for the acquisition of WildHorse and its corresponding merger (the â€œMergerâ€) with and into our wholly owned subsidiary, Brazos Valley Longhorn, L.L.C. (â€œBrazos Valley Longhornâ€ or â€œBVLâ€), as a business combination, using the acquisition method. The following table represents the preliminary allocation of the total purchase price of WildHorse to the identifiable assets acquired and the liabilities assumed based on the fair values as of the acquisition date. Certain data necessary to complete the purchase price allocation is not yet available, and includes, but is not limited to, valuation of pre-acquisition contingencies and final appraisals of assets acquired and liabilities assumed. We expect to complete the purchase price allocation during the 12-month period following the acquisition date, during which time the value of the assets and liabilities may be revised as appropriate.

	Preliminary Purchase Price Allocation
	($ in millions)
Consideration:	
Cash	$ 381
Fair value of Chesapeakeâ€™s common stock issued in the Merger [(a)]	2,037
Total consideration	$ 2,418
Fair Value of Liabilities Assumed:	
Current liabilities	$ 166
Long-term debt	1,379
Deferred tax liabilities	314
Other long-term liabilities	36
Amounts attributable to liabilities assumed	$ 1,895
Fair Value of Assets Acquired:	
Cash and cash equivalents	$ 28
Other current assets	128
Proved oil and natural gas properties	3,264
Unproved properties	756
Other property and equipment	77
Other long-term assets	60
Amounts attributable to assets acquired	$ 4,313
Total identifiable net assets	$ 2,418

(a) Based on 717,376,170 Chesapeake common shares issued at closing at $2.84 per share (closing price as of February 1, 2019).

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We included in our condensed consolidated statements of operations revenues of $543 million, direct operating expenses of $579 million and other expense of $67 million related to the WildHorse business for the period from February 1, 2019 to September 30, 2019.

Pro Forma Financial Information

The following unaudited pro forma financial information for the nine months ended September 30, 2019 and three and nine months ended September 30, 2018, respectively, is based on our historical consolidated financial statements adjusted to reflect as if the WildHorse acquisition had occurred on January 1, 2018. The information below reflects pro forma adjustments based on available information and certain assumptions that we believe are reasonable, including adjustments to conform the classification of expenses in WildHorseâ€™s statements of operations to our classification for similar expenses and the estimated tax impact of pro forma adjustments.

	Three Months Ended September 30,		Nine Months Ended September 30,			
	2018		2019		2018	
	($ in millions except per share data)					
Revenues	$	2,607	$	6,661	$	7,692
Net income (loss) available to common stockholders	$	(199)	$	(85)	$	(543)
Earnings per common share:						
Basic	$	(0.12)	$	(0.05)	$	(0.33)
Diluted	$	(0.12)	$	(0.05)	$	(0.33)

This unaudited pro forma information has been derived from historical information. The unaudited pro forma financial information is not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of the periods presented, nor is it necessarily indicative of future results.

Divestitures

In the Prior Period, we sold portions of our acreage, producing properties and other related property and equipment in the Mid-Continent, including our Mississippian Lime assets, for approximately $491 million, subject to certain customary closing adjustments. Included in the sales were approximately 238,500 net acres and interests in approximately 3,200 wells. Also, in the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, we received proceeds of approximately $28 million, $8 million, $110 million and $31 million, respectively, subject to customary closing adjustments, for the sale of other oil and natural gas properties covering various operating areas.

4. Capitalized Exploratory Well Costs

A summary of the changes in our capitalized well costs for the Current Period is detailed below. Additions pending the determination of proved reserves excludes amounts capitalized and subsequently charged to expense within the same year.

		2019
		($ in millions)
Balance as of January 1	$	36
Additions pending the determination of proved reserves		14
Divestitures and other		â€”
Reclassifications to proved properties		(18)
Charges to exploration expense		(8)
Balance as of September 30	$	24

As of September 30, 2019, approximately $1 million of drilling and completion costs on exploratory wells pending determination of proved reserves have been capitalized for greater than one year.

5. Earnings Per Share

Basic earnings per share (EPS) is calculated using the weighted average number of common shares outstanding during the period and includes the effect of any participating securities as appropriate. Participating securities consist of unvested restricted stock issued to our employees and non-employee directors that provide dividend rights.

Diluted EPS is calculated assuming the issuance of common shares for all potentially dilutive securities, provided the effect is not antidilutive. For all periods presented, our convertible senior notes did not have a dilutive effect and, therefore, were excluded from the calculation of diluted EPS.

Shares of common stock for the following securities were excluded from the calculation of diluted EPS as the effect was antidilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Common stock equivalent of our preferred stock outstanding	58	60	58	60
Common stock equivalent of our convertible senior notes outstanding	124	146	124	146
Common stock equivalent of our preferred stock outstanding prior to exchange	1	â€”	1	â€”
Participating securities	â€”	2	â€”	1

6. Debt

Our long-term debt consisted of the following as of September 30, 2019 and December 31, 2018:

	September 30, 2019		December 31, 2018	
	Principal Amount	Carrying Amount	Principal Amount	Carrying Amount
	($ in millions)			
Floating rate senior notes due 2019	â€”	â€”	380	380
6.625% senior notes due 2020	208	208	437	437
6.875% senior notes due 2020	93	93	227	227
6.125% senior notes due 2021	167	167	548	548
5.375% senior notes due 2021	127	127	267	267
4.875% senior notes due 2022	338	338	451	451
5.75% senior notes due 2023	209	209	338	338
7.00% senior notes due 2024	850	850	850	850
6.875% senior notes due 2025[(a)]	618	621	â€”	â€”
8.00% senior notes due 2025	1,245	1,237	1,300	1,291
5.5% convertible senior notes due 2026[(b)]	1,064	758	1,250	866
7.5% senior notes due 2026	400	400	400	400
8.00% senior notes due 2026	919	885	â€”	â€”
8.00% senior notes due 2027	1,090	1,089	1,300	1,299
2.25% contingent convertible senior notes due 2038	â€”	â€”	1	1
Chesapeake revolving credit facility	1,504	1,504	419	419
BVL revolving credit facility[(a)]	900	900	â€”	â€”
Debt issuance costs	â€”	(46)	â€”	(53)
Interest rate derivatives	â€”	1	â€”	1
Total debt, net	9,732	9,341	8,168	7,722
Less current maturities of long-term debt, net[(c)]	(208)	(208)	(381)	(381)
Total long-term debt, net	$ 9,524	$ 9,133	$ 7,787	$ 7,341

(a) On February 1, 2019, we acquired the debt of WildHorse which consisted of 6.875% Senior Notes due 2025 and a revolving credit facility. We now refer to this debt as our BVL Senior Notes and our BVL revolving credit facility, respectively. See further discussion below.

(b) We are required to account for the liability and equity components of our convertible debt instrument separately and to reflect interest expense through the first demand repurchase date, as applicable, at the interest rate of similar nonconvertible debt at the time of issuance. The applicable rate for our 5.5% Convertible Senior Notes due 2026 is 11.5%. Prior to maturity under certain circumstances and at the holderâ€™s option, the notes are convertible. During the Current Quarter, the price of our common stock was below the threshold level for conversion and, as a result, the holders do not have the option to convert their notes in the fourth quarter of 2019.

(c) As of September 30, 2019, net current maturities of long-term debt includes our 6.625% Senior Notes due August 2020.

Chesapeake Revolving Credit Facility

Our Chesapeake revolving credit facility matures in September 2023 and the current aggregate commitment of the lenders and borrowing base under the facility is $3.0 billion. The revolving credit facility provides for an accordion feature, pursuant to which the aggregate commitments thereunder may be increased to up to $4.0 billion from time to time, subject to agreement of the participating lenders and certain other customary conditions. Scheduled borrowing base redeterminations will continue to occur semiannually. Our borrowing base was reaffirmed on November 1, 2019, and our next borrowing base redetermination is scheduled for the second quarter of 2020. As of September 30, 2019, we had outstanding borrowings of $1.504 billion under the Chesapeake revolving credit facility and had used $53 million of the Chesapeake revolving credit facility for various letters of credit.

On February 1, 2019, we entered into a first amendment to our Chesapeake credit agreement. Among other things, the amendment (i) designated our subsidiary, Brazos Valley Longhorn, and its subsidiaries as unrestricted subsidiaries under the Chesapeake revolving credit facility and (ii) expressly permitted our initial investment in WildHorse under the limitations on investments covenant. As a result of BVL and its subsidiaries being designated as unrestricted subsidiaries under the Chesapeake revolving credit facility, transactions between BVL and its subsidiaries, on the one hand, and Chesapeake and its subsidiaries (other than BVL and its subsidiaries), on the other hand, are required to be on an armâ€™s-length basis, subject to certain exceptions, and Chesapeake is limited in the amount of investments it can make in BVL and its subsidiaries.

Borrowings under the Chesapeake revolving credit facility bear interest at an alternative base rate (ABR) or LIBOR, at our election, plus an applicable margin ranging from 0.50%-2.00% per annum for ABR loans and 1.50%-3.00% per annum for LIBOR loans, depending on the percentage of the borrowing base then being utilized and whether our leverage ratio exceeds 4.00 to 1.00.

In July 2017, the UK's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR as a benchmark by the end of 2021. At the present time, the Chesapeake revolving credit facility has a term that extends beyond 2021. The Chesapeake revolving credit facility provides for a mechanism to amend the facility to reflect the establishment of an alternate rate of interest upon the occurrence of certain events related to the phase-out of LIBOR. However, we have not yet pursued any technical amendment or other contractual alternative to address this matter. We are currently evaluating the potential impact of the eventual replacement of the LIBOR interest rate.

The Chesapeake revolving credit facility is subject to various financial and other covenants. The terms of the Chesapeake credit agreement include covenants limiting, among other things, our ability to incur additional indebtedness, make investments or loans, incur liens, consummate mergers and similar fundamental changes, make restricted payments, make investments in unrestricted subsidiaries and enter into transactions with affiliates. The Chesapeake credit agreement contains financial covenants that require us to maintain (i) a leverage ratio, which is the ratio of consolidated indebtedness to consolidated EBITDAX, each as defined in the Chesapeake credit agreement to exclude amounts associated with unrestricted subsidiaries, of not more than 5.50 to 1 through the fiscal quarter ending September 30, 2019, which threshold decreases by 25 basis points each quarter until it reaches 4.00 to 1.00 for the fiscal quarter ending March 31, 2021 and every quarter thereafter, (ii) a secured leverage ratio of not more than 2.50 to 1.00 until the later of (x) the fiscal quarter ending March 31, 2021 or (y) the first fiscal quarter in which the Companyâ€™s leverage ratio does not exceed 4.00 to 1.00 and (iii) a fixed charge coverage ratio of not less than 2.00 to 1.00 through the fiscal quarter ending December 31, 2019; not less than 2.25 to 1.00 through the fiscal quarter ending June 30, 2020; and not less than 2.50 to 1.00 for the fiscal quarter ended September 30, 2020 and every quarter thereafter.

As of September 30, 2019, we were in compliance with all applicable financial covenants under the credit agreement and we were able to borrow up to the full availability under the Chesapeake revolving credit facility and had $1.443 billion of borrowing capacity thereunder.

Fluctuations in oil and natural gas prices have a material impact on our financial position, results of operations, cash flows and quantities of oil, natural gas and NGL reserves that may be economically produced. Historically, oil and natural gas prices have been volatile, and may be subject to wide fluctuations in the future. If continued depressed prices persist, combined with the scheduled reductions in the leverage ratio covenant, our ability to comply with the leverage ratio covenant during the next 12 months will be adversely affected which raises substantial doubt about our ability to continue as a going concern. Failure to comply with this covenant, if not waived, would result in an event of default under our Chesapeake revolving credit facility, the potential acceleration of outstanding debt thereunder and the potential foreclosure on the collateral securing such debt, and could cause a cross-default under our other outstanding indebtedness. We are actively pursuing with support from the Board of Directors a variety of transactions and cost-cutting measures, including but not limited to, reduction in corporate discretionary expenditures, refinancing transactions by us or our subsidiaries, capital exchange transactions, asset divestitures, reductions in capital expenditures by approximately 30% in 2020 and operational efficiencies. We believe it is probable that these measures, as we continue to implement them, will enable us to comply with our leverage ratio covenant.

BVL Revolving Credit Facility

In connection with the acquisition of WildHorse, our subsidiary, BVL, became the borrower under the WildHorse revolving credit facility (as amended, the â€œBVL revolving credit facilityâ€). The BVL revolving credit facility has a maximum credit amount of $2.0 billion, with current aggregate commitments and a borrowing base of $1.3 billion. The BVL revolving credit facility matures in December 2021. Scheduled borrowing base redeterminations occur on at least a semi-annual basis, primarily on the basis of estimated proved reserves. The scheduled borrowing base redetermination for the fourth quarter of 2019 is ongoing, and there can be no assurance that the borrowing base will remain at $1.3 billion. As of September 30, 2019, BVL had outstanding borrowings of $900 million under its credit agreement. The BVL revolving credit facility is guaranteed by certain of BVLâ€™s subsidiaries (the â€œBVL Guarantorsâ€) and is required to be secured, and is secured, by substantially all of the assets of BVL and the BVL Guarantors, including mortgages on not less than 85% of the proved reserves of their oil and gas properties.

On February 1, 2019, BVL, as successor by merger to WildHorse, entered into a sixth amendment to the BVL credit agreement. Among other things, the amendment (i) amended the merger covenant and the definition of change of control to permit our acquisition of WildHorse and (ii) permits borrowings under the BVL revolving credit facility to be used to redeem or repurchase the BVL Senior Notes so long as certain conditions are met.

The obligations under the BVL revolving credit facility are the senior secured obligations of BVL and the BVL Guarantors. The obligations under the BVL revolving credit facility are not obligations of Chesapeake or any of its other subsidiaries. The obligations under the BVL revolving credit facility rank equally in right of payment with all other senior secured indebtedness of BVL and the other BVL Guarantors, and are effectively senior to the BVL and the BVL Guarantorsâ€™ senior unsecured indebtedness, including their obligations under the BVL Senior Notes, to the extent of the value of the collateral securing the BVL revolving credit facility.

The BVL revolving credit facility is used for the liquidity and expenses of BVL and its subsidiaries and not Chesapeake and its other subsidiaries. Revolving loans under the BVL revolving credit facility bear interest at an ABR, Eurodollar rate or LIBOR at BVLâ€™s election, plus an applicable margin (ranging from 0.50%-1.50% per annum for ABR loans, 1.50%-2.50% per annum for Eurodollar loans and 1.50%-2.50% per annum for LIBOR Market Index loans), depending on Brazos Valley Longhornâ€™s total commitment usage. The unused portion of the total commitments are subject to a commitment fee that varies from 0.375% to 0.500%, depending on BVLâ€™s total commitment usage.

In July 2017, the UK's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR as a benchmark by the end of 2021. At the present time, the BVL revolving credit facility has a stated maturity date in December 2021. Under the terms of the BVL revolving credit facility, the occurrence of certain events related to the phase-out of LIBOR would make Eurodollar borrowings unavailable and require BVL to borrow at the ABR rate or at an alternate rate of interest determined by the lenders under the BVL revolving credit facility as their cost of funds. We are currently evaluating the potential impact of the eventual phasing-out of LIBOR, including the amendment of the BVL revolving credit facility to implement a market-standard approach to the transition from LIBOR.

The terms of the BVL credit agreement include covenants limiting, among other things, the ability of BVL and its restricted subsidiaries (as defined in the BVL credit agreement) to incur additional indebtedness, make investments or loans, incur liens, consummate mergers or similar fundamental changes, make restricted payments, including distributions to Chesapeake, and enter into transactions with affiliates, including Chesapeake and its other subsidiaries. The BVL credit agreement also contains financial covenants that require BVL to maintain (i) (x) if there are no loans outstanding thereunder, a ratio of net debt to EBITDAX (as defined in the BVL credit agreement) of not more than 4.00 to 1.00 as of the last day of each fiscal quarter or (y) if there are such loans outstanding, a ratio of total funded debt to EBITDAX of not more than 4.00 to 1.00 as of the last day of each fiscal quarter and (ii) a ratio of current assets (including availability under the BVL revolving credit facility) to current liabilities of not less than 1.00 to 1.00 as of the last day of each fiscal quarter. As of September 30, 2019, we were in compliance with all applicable financial covenants under the BVL credit agreement and we were able to borrow up to the full availability under the BVL revolving credit facility.

Chesapeake Senior Notes

In the Current Quarter, we privately negotiated exchanges of approximately $507 million principal amount of our outstanding senior notes for 235,563,519 shares of common stock and $186 million principal amount of our outstanding convertible senior notes for 73,389,094 shares of common stock. We recorded an aggregate net gain of approximately $64 million associated with the exchanges.

In the Current Period, we issued at par approximately $919 million of 8.00% Senior Notes due 2026 (â€œ2026 notesâ€) pursuant to a private exchange offer for the following outstanding senior unsecured notes:

	Notes Exchanged
	($ in millions)
6.625% senior notes due 2020	$ 229
6.875% senior notes due 2020	134
6.125% senior notes due 2021	381
5.375% senior notes due 2021	140
Total	$ 884

We may redeem some or all of the 2026 notes at any time prior to March 15, 2022 at a price equal to 100% of the principal amount of the notes to be redeemed plus a â€œmake-wholeâ€ premium. At any time prior to March 15, 2022, we also may redeem up to 35% of the aggregate principal amount of each series of notes with an amount of cash not greater than the net cash proceeds of certain equity offerings at a specified redemption price. In addition, we may redeem some or all of the 2026 notes at any time on or after March 15, 2022 at the redemption prices in accordance with the terms of the notes, the indenture and supplemental indenture governing the notes. These senior notes are unsecured obligations of Chesapeake and rank equally in right of payment with all of our other existing and future senior unsecured indebtedness and rank senior in right of payment to all of our future subordinated indebtedness. Our obligations under the senior notes are jointly and severally, fully and unconditionally guaranteed by all of our wholly owned subsidiaries that guarantee the Chesapeake revolving credit facility and certain other unsecured senior notes. We accounted for the exchange as a modification to existing debt and no gain or loss was recognized.

In the Current Period, we repaid upon maturity $380 million principal amount of our Floating Rate Senior Notes due April 2019 with borrowings from our Chesapeake revolving credit facility.

BVL Senior Notes

As a result of the completion of the acquisition of WildHorse, BVL assumed the obligations under WildHorseâ€™s $700 million aggregate principal amount of 6.875% Senior Notes due 2025 (the â€œBVL Senior Notesâ€) and Brazos Valley Longhorn Finance Corp. (â€œBVL Finance Corp.â€), a wholly owned subsidiary of BVL, became a co-issuer of the BVL Senior Notes.

On February 1, 2019, BVL, as successor by merger to WildHorse, and BVL Finance Corp. entered into a fourth supplemental indenture (the â€œBVL supplemental indentureâ€) to the indenture governing the BVL Senior Notes (as supplemented, the â€œBVL indentureâ€). Pursuant to the BVL supplemental indenture, (i) BVL assumed the rights and obligations of WildHorse as issuer under the BVL indenture and (ii) BVL Finance Corp. was named as a co-issuer of the BVL Senior Notes under the BVL indenture.

The BVL Senior Notes are the senior unsecured obligations of BVL, BVL Finance Corp. and the other BVL Guarantors. The BVL Senior Notes are not obligations of Chesapeake or any of its other subsidiaries. The BVL Senior Notes rank equally in right of payment with all other senior unsecured indebtedness of BVL, BVL Finance Corp. and the other BVL Guarantors, and will be effectively subordinated to BVLâ€™s, BVL Finance Corp.â€™s and the other BVL Guarantorsâ€™ senior secured indebtedness, including their obligations under the BVL revolving credit facility, to the extent of the value of the collateral securing such indebtedness.

The BVL indenture contains customary reporting covenants (including furnishing quarterly and annual reports to the holders of the BVL Senior Notes) and restrictive covenants that, among other things, limit the ability of BVL and its subsidiaries to: (i) pay dividends on, purchase or redeem BVLâ€™s equity interests or purchase or redeem subordinated debt, unless such distributions, purchases or redemptions are permitted by certain exceptions, including for amounts based on BVLâ€™s operating results, subject to the satisfaction of certain conditions, and a $25 million basket; (ii) make certain investments; (iii) incur or guarantee additional indebtedness or issue certain types of equity securities; (iv) create or incur certain secured debt; (v) sell assets; (vi) consolidate, merge or transfer all or substantially all of BVLâ€™s assets; (vii) enter into agreements that restrict distributions or other payments from BVLâ€™s restricted subsidiaries to BVL; (viii) engage in transactions with affiliates, including Chesapeake and its other subsidiaries; and (ix) create unrestricted subsidiaries. These covenants are subject to a number of important qualifications and limitations. In addition, most of the covenants will be terminated before the BVL Senior Notes mature if at any time no default or event of default exists under the BVL indenture and the BVL Senior Notes receive an investment grade rating from both of two specified ratings agencies. The BVL indenture also contains customary events of default.

The BVL credit agreement and the BVL indenture constrain the ability of BVL and its subsidiaries to make distributions or otherwise provide funds to, or guarantee the obligations of, Chesapeake and its other subsidiaries. The provisions of the BVL credit agreement and the BVL indenture require that all transactions between BVL and its subsidiaries, on the one hand, and Chesapeake and its other subsidiaries, on the other hand, be on an arm's-length basis, subject to certain exceptions.

In the Current Quarter, we repurchased approximately $82 million principal amount of the BVL Senior Notes for $76 million and recorded a $6 million gain.

Fair Value of Debt

We estimate the fair value of our senior notes based on the market value of our publicly traded debt as determined based on the yield of our senior notes (Level 1). The fair value of all other debt is based on a market approach using estimates provided by an independent investment financial data services firm (Level 2). Fair value is compared to the carrying value, excluding the impact of interest rate derivatives, in the table below:

	September 30, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	($ in millions)			
Short-term debt (Level 1)	$ 208	$ 208	$ 381	$ 379
Long-term debt (Level 1)	$ 2,790	$ 2,245	$ 3,495	$ 3,173
Long-term debt (Level 2)	$ 6,343	$ 4,980	$ 3,846	$ 3,644

7. Contingencies and Commitments

There have been no material developments in previously reported legal or environmental contingencies or commitments other than the items discussed below. For a discussion of commitments and contingencies, see â€œContingencies and Commitments,â€ Note 4 to the Consolidated Financial Statements in our 2018 Form 10-K.

Contingencies

Litigation and Regulatory Proceedings

We are involved in a number of litigation and regulatory proceedings including those described below. Many of these proceedings are in early stages, and many of them seek or may seek damages and penalties, the amount of which is indeterminate. Our total accrued liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different.

Business Operations. We are involved in various lawsuits and disputes incidental to our business operations, including commercial disputes, personal injury claims, royalty claims, property damage claims and contract actions.

We and other natural gas producers have been named in various lawsuits alleging underpayment of royalties and other shares of the proceeds of production. The suits against us allege, among other things, that we used below-market prices, made improper deductions, utilized improper measurement techniques, entered into arrangements with affiliates that resulted in underpayment of amounts owed in connection with the production and sale of natural gas and NGL, or similar theories. These lawsuits include cases filed by individual royalty owners and putative class actions, some of which seek to certify a statewide class. The lawsuits seek compensatory, consequential, treble, and punitive damages, restitution and disgorgement of profits, declaratory and injunctive relief regarding our payment practices, pre-and post-judgment interest, and attorneyâ€™s fees and costs. Royalty plaintiffs have varying provisions in their respective leases, oil and gas law varies from state to state, and royalty owners and producers differ in their interpretation of the legal effect of lease provisions governing royalty calculations. We have resolved a number of these claims through negotiated settlements of past and future royalty obligations and have prevailed in various other lawsuits. We are currently defending numerous lawsuits seeking damages with respect to underpayment of royalties or other shares of the proceeds of production in multiple states where we have operated, including those discussed below.

On December 9, 2015, the Commonwealth of Pennsylvania, by the Office of Attorney General, filed a lawsuit in the Bradford County Court of Common Pleas related to royalty underpayment and lease acquisition and accounting practices with respect to properties in Pennsylvania. The lawsuit, which primarily relates to the Marcellus Shale and Utica Shale, alleges that we violated the Pennsylvania Unfair Trade Practices and Consumer Protection Law (UTPCPL) by making improper deductions and entering into arrangements with affiliates that resulted in underpayment of royalties. The lawsuit includes other UTPCPL claims and antitrust claims, including that a joint exploration agreement to which we are a party established unlawful market allocation for the acquisition of leases. The lawsuit seeks statutory restitution, civil penalties and costs, as well as a temporary injunction from exploration and drilling activities in Pennsylvania until restitution, penalties and costs have been paid, and a permanent injunction from further violations of the UTPCPL.

Putative statewide class actions in Pennsylvania and Ohio and purported class arbitrations in Pennsylvania have been filed on behalf of royalty owners asserting various claims for damages related to alleged underpayment of royalties as a result of the divestiture of substantially all of our midstream business and most of our gathering assets in 2012 and 2013. These cases include claims for violation of and conspiracy to violate the federal Racketeer Influenced and Corrupt Organizations Act and for an unlawful market allocation agreement for mineral rights, intentional interference with contractual relations, and violations of antitrust laws related to purported markets for gas mineral rights, operating rights and gas gathering sources. These lawsuits seek in aggregate compensatory, consequential, treble, and punitive damages, restitution and disgorgement of profits, declaratory and injunctive relief regarding our royalty payment practices, pre-and post-judgment interest, and attorneyâ€™s fees and costs. On December 20, 2017 and August 9, 2018, we reached tentative settlements to resolve substantially all Pennsylvania civil royalty cases for a total of approximately $35 million.

We believe losses are reasonably possible in certain of the pending royalty cases for which we have not accrued a loss contingency, but we are currently unable to estimate an amount or range of loss or the impact the actions could have on our future results of operations or cash flows. Uncertainties in pending royalty cases generally include the complex nature of the claims and defenses, the potential size of the class in class actions, the scope and types of the properties and agreements involved, and the applicable production years.

On July 24, 2018, Healthcare of Ontario Pension Plan (HOOPP) filed a demand for arbitration with the American Arbitration Association regarding HOOPPâ€™s purchase of our interest in Chaparral Energy, Inc. stock for $215 million on January 5, 2014. HOOPP claims that we engaged in material misrepresentations and fraud, and that we violated the Securities Exchange Act of 1934 (the â€œExchange Actâ€) and Oklahoma Uniform Securities Act. HOOPP seeks either rescission or $215 million in monetary damages, and in either case, interest, attorneyâ€™s fees, disgorgement and punitive damages. We intend to vigorously defend these claims.

In February 2019, a putative class action lawsuit was filed in the District Court of Dallas County, Texas against FTS International, Inc. (FTSI), certain investment banks, FTSIâ€™s directors including certain of our officers and certain shareholders of FTSI including us. The lawsuit alleges various violations of Sections 11 (with respect to certain of our officers in their capacities as directors of FTSI) and 15 (with respect to such officers and us) of the Securities Act of 1933 in connection with public disclosure made during the initial public offering of FTSI. The suit seeks damages in excess of $1,000,000 and attorneysâ€™ fees and other expenses. We intend to vigorously defend these claims.

Environmental Contingencies

The nature of the oil and gas business carries with it certain environmental risks for us and our subsidiaries. We have implemented various policies, programs, procedures, training and audits to reduce and mitigate such environmental risks. We conduct periodic reviews, on a company-wide basis, to assess changes in our environmental risk profile. Environmental reserves are established for environmental liabilities for which economic losses are probable and reasonably estimable. We manage our exposure to environmental liabilities in acquisitions by using an evaluation process that seeks to identify pre-existing contamination or compliance concerns and address the potential liability. Depending on the extent of an identified environmental concern, we may, among other things, exclude a property from the transaction, require the seller to remediate the property to our satisfaction in an acquisition or agree to assume liability for the remediation of the property.

We are named as a defendant in numerous lawsuits in Oklahoma alleging that we and other companies have engaged in activities that have caused earthquakes. These lawsuits seek compensation for injury to real and personal property, diminution of property value, economic losses due to business interruption, interference with the use and enjoyment of property, annoyance and inconvenience, personal injury and emotional distress. In addition, they seek the reimbursement of insurance premiums and the award of punitive damages, attorneysâ€™ fees, costs, expenses and interest. We intend to vigorously defend these claims.

We previously disclosed ongoing discussions between our subsidiary, Chesapeake Appalachia, L.L.C. (â€œCALLCâ€) and the Pennsylvania Department of Environmental Protection related to gas migration in the vicinity of certain of our wells in Bradford County. Those concerns were resolved by the parties on August 28, 2019. Pursuant to the settlement, CALLC paid a civil penalty of less than $100,000.

Other Matters

Based on managementâ€™s current assessment, we are of the opinion that no pending or threatened lawsuit or dispute relating to our business operations is likely to have a material adverse effect on our future consolidated financial position, results of operations or cash flows. The final resolution of such matters could exceed amounts accrued, however, and actual results could differ materially from managementâ€™s estimates.

Commitments

Gathering, Processing and Transportation Agreements

We have contractual commitments with midstream service companies and pipeline carriers for future gathering, processing and transportation of oil, natural gas and NGL to move certain of our production to market. Working interest owners and royalty interest owners, where appropriate, will be responsible for their proportionate share of these costs. Commitments related to gathering, processing and transportation agreements are not recorded as obligations in the accompanying condensed consolidated balance sheets; however, they are reflected in our estimates of proved reserves.

The aggregate undiscounted commitments under our gathering, processing and transportation agreements, excluding any reimbursement from working interest and royalty interest owners, credits for third-party volumes or future costs under cost-of-service agreements, are presented below:

	September 30, 2019	
	($ in millions)	
Remainder of 2019	$	201
2020		764

2021		673
2022		570
2023		480
2024 â€“ 2035		2,731
Total	$	5,419

In addition, we have entered into long-term agreements for certain natural gas gathering and related services within specified acreage dedication areas in exchange for cost-of-service based fees redetermined annually, or tiered fees based on volumes delivered relative to scheduled volumes. Future gathering fees may vary with the applicable agreement.

8. Other Liabilities

Other current liabilities as of September 30, 2019 and December 31, 2018 are detailed below:

	September 30, 2019	December 31, 2018
	($ in millions)	
Revenues and royalties due others	$ 429	$ 687
Accrued drilling and production costs	474	258
Joint interest prepayments received	49	73
VPP deferred revenue[(a)]	56	59
Accrued compensation and benefits	156	202
Other accrued taxes	141	108
Other	185	212
Total other current liabilities	$ 1,490	$ 1,599

Other long-term liabilities as of September 30, 2019 and December 31, 2018 are detailed below:

	September 30, 2019	December 31, 2018
	($ in millions)	
VPP deferred revenue[(a)]	$ 22	$ 63
Unrecognized tax benefits	55	53
Other	109	103
Total other long-term liabilities	$ 186	$ 219

(a) At the inception of our volumetric production payment (VPP) agreements, we (i) removed the proved reserves associated with the VPP, (ii) recognized VPP proceeds as deferred revenue which are being amortized on a unit-of-production basis to other revenue over the term of the VPP, (iii) retained responsibility for the production costs and capital costs related to VPP interests and (iv) ceased recognizing production associated with the VPP volumes. The remaining deferred revenue balance will be recognized in other revenues in the consolidated statement of operations through 2021, assuming the related VPP production volumes are delivered as scheduled.

9. Leases

We are a lessee under various agreements for compressors, office space, vehicles and other equipment. As of September 30, 2019, these leases have remaining terms ranging from one month to 7.3 years. Certain of our lease agreements include options to renew the lease, terminate the lease early or purchase the underlying asset at the end of the lease. We determine the lease term at the lease commencement date as the non-cancelable period of the lease, including options to extend or terminate the lease when we are reasonably certain to exercise the option. The companyâ€™s vehicles are the only leases with renewal options that we are reasonably certain to exercise. The renewals are reflected in the ROU asset and lease liability balances.

Upon adoption of ASC 842 on January 1, 2019, we recognized a nominal operating lease liability and a nominal related ROU asset related to vehicles we lease.

On February 1, 2019, we acquired WildHorse and, as part of the purchase price allocation, we recognized additional operating lease liabilities of $40 million, a related ROU asset of $38 million, and lease incentives of $2 million related to two office space leases, a long-term hydraulic fracturing agreement and other equipment leases. Regarding our long-term hydraulic fracturing agreements, we made a policy election to treat both lease and non-lease components as a single lease component.

In 2018, we sold our wholly owned subsidiary, Midcon Compression, L.L.C., to a third party and subsequently leased back some natural gas compressors for 38 months. The lease is accounted for as a finance lease liability.

The following table presents our ROU assets and lease liabilities as of September 30, 2019.

	Financing	Operating
	($ in millions)	
ROU assets	$ 20	$ 22
Lease liabilities:		
Current lease liabilities	$ 9	$ 9
Long-term lease liabilities	11	16
Total lease liabilities	$ 20	$ 25

Additional information for the Companyâ€™s operating and finance leases is presented below:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Lease cost:	($ in millions)	
Amortization of ROU assets	$ 2	$ 6
Interest on lease liability	â€”	1
Finance lease cost	2	7
Operating lease cost	7	24
Short-term lease cost	34	82
Total lease cost[(a)]	$ 43	$ 113
Other information:		
Operating cash outflows from finance lease	$ â€”	$ 1
Operating cash outflows from operating leases	$ 3	$ 8
Investing cash outflows from operating leases	$ 38	$ 98
Financing cash outflows from finance lease	$ 2	$ 6

Weighted-average remaining lease term - finance lease	2.25 years
Weighted-average remaining lease term - operating leases	4.87 years
Weighted-average discount rate - finance lease	7.50%
Weighted-average discount rate - operating leases	4.17%

(a) Includes $38 million and $98 million of capitalized lease costs for the Current Quarter and the Current Period, respectively.

Maturity analysis of finance lease liabilities and operating lease liabilities are presented below:

	September 30, 2019	
	Financing Lease	Operating Leases
	($ in millions)	
Remainder of 2019	$ 3	$ 2
2020	10	9
2021	10	5
2022	â€”	3
2023	â€”	2
Thereafter	â€”	7
Total lease payments	23	28
Less imputed interest	(3)	(3)
Present value of lease liabilities	20	25
Less current maturities	(9)	(9)
Present value of lease liabilities, less current maturities	$ 11	$ 16

The aggregate undiscounted minimum future lease payments under previous lease accounting standard, ASC 840, are presented below:

	December 31, 2018	
	Capital Lease	Operating Leases
	($ in millions)	
2019	$ 10	$ 3
2020	10	1
2021	10	â€”
Total minimum lease payments	$ 30	$ 4

10. Revenue Recognition

The FASB issued *Revenue from Contracts with Customers* (Topic 606) superseding virtually all existing revenue recognition guidance. We adopted this new standard in the Prior Period using the modified retrospective approach. We applied the new standard to all contracts that were not completed as of January 1, 2018 and reflected the aggregate effect of all modifications in determining and allocating the transaction price. The cumulative effect of adoption of $8 million in the Prior Period did not have a material impact on our consolidated financial statements.

The following table shows revenue disaggregated by operating area and product type, for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period:

	Three Months Ended September 30, 2019			
	Oil	Natural Gas	NGL	Total
	($ in millions)			
Marcellus	$ â€”	$ 158	$ â€”	$ 158
Haynesville	â€”	129	â€”	129
Eagle Ford	282	32	22	336
Brazos Valley	194	10	5	209
Powder River Basin	97	16	5	118
Mid-Continent	40	8	5	53
Revenue from contracts with customers	613	353	37	1,003
Gains on oil, natural gas and NGL derivatives	124	43	â€”	167
Oil, natural gas and NGL revenue	$ 737	$ 396	$ 37	$ 1,170
Marketing revenue from contracts with customers	$ 603	$ 165	$ 37	$ 805
Other marketing revenue	80	4	â€”	84
Losses on oil, natural gas and NGL derivatives	â€”	â€”	â€”	â€”
Marketing revenue	$ 683	$ 169	$ 37	$ 889

	Three Months Ended September 30, 2018			
	Oil	Natural Gas	NGL	Total
	($ in millions)			
Marcellus	$ â€”	$ 184	$ â€”	$ 184
Haynesville	â€”	195	â€”	195
Eagle Ford	399	36	58	493
Powder River Basin	78	17	13	108
Mid-Continent	58	15	12	85
Utica	59	131	76	266
Revenue from contracts with customers	594	578	159	1,331
Losses on oil, natural gas and NGL derivatives	(100)	(18)	(14)	(132)
Oil, natural gas and NGL revenue	$ 494	$ 560	$ 145	$ 1,199
Marketing revenue from contracts with customers	707	211	112	1,030
Other marketing revenue	119	70	â€”	189
Marketing revenue	$ 826	$ 281	$ 112	$ 1,219

	Nine Months Ended September 30, 2019			
	Oil	Natural Gas	NGL	Total
	($ in millions)			
Marcellus	$ â€”	$ 656	$ â€”	$ 656
Haynesville	â€”	494	â€”	494
Eagle Ford	962	117	89	1,168
Brazos Valley	513	23	12	548
Powder River Basin	273	59	23	355
Mid-Continent	131	34	26	191
Revenue from contracts with customers	1,879	1,383	150	3,412
Gains (losses) on oil, natural gas and NGL derivatives	(49)	190	â€”	141
Oil, natural gas and NGL revenue	$ 1,830	$ 1,573	$ 150	$ 3,553
Marketing revenue from contracts with customers	$ 1,830	$ 741	$ 202	$ 2,773
Other marketing revenue	230	38	â€”	268
Losses on oil, natural gas and NGL derivatives	â€”	(3)	â€”	(3)
Marketing revenue	$ 2,060	$ 776	$ 202	$ 3,038

	Nine Months Ended September 30, 2018			
	Oil	Natural Gas	NGL	Total
	($ in millions)			
Marcellus	$ â€”	$ 646	$ â€”	$ 646
Haynesville	2	603	â€”	605
Eagle Ford	1,148	120	143	1,411
Powder River Basin	173	40	30	243
Mid-Continent	196	63	42	301
Utica	179	350	189	718
Revenue from contracts with customers	1,698	1,822	404	3,924
Losses on oil, natural gas and NGL derivatives	(388)	(85)	(27)	(500)
Oil, natural gas and NGL revenue	$ 1,310	$ 1,737	$ 377	$ 3,424
Marketing revenue from contracts with customers	2,125	733	324	3,182
Other marketing revenue	381	175	â€”	556
Marketing revenue	$ 2,506	$ 908	$ 324	$ 3,738

Accounts Receivable

Our accounts receivable are primarily from purchasers of oil, natural gas and NGL and from exploration and production companies that own interests in properties we operate. This industry concentration could affect our overall exposure to credit risk, either positively or negatively, because our purchasers and joint working interest owners may be similarly affected by changes in economic, industry or other conditions. We monitor the creditworthiness of all our counterparties and we generally require letters of credit or parent guarantees for receivables from parties deemed to have sub-standard credit, unless the credit risk can otherwise be mitigated. We utilize an allowance method in accounting for bad debt based on historical trends in addition to specifically identifying receivables that we believe may be uncollectible. Accounts receivable as of September 30, 2019 and December 31, 2018 are detailed below:

	September 30, 2019	December 31, 2018
	($ in millions)	
Oil, natural gas and NGL sales	$ 644	$ 976
Joint interest	290	211
Other	64	77
Allowance for doubtful accounts	(21)	(17)
Total accounts receivable, net	$ 977	$ 1,247

11. Income Taxes

We estimate our annual effective tax rate for continuing operations in recording our quarterly income tax provision (or benefit) for the various jurisdictions in which we operate. The tax effects of statutory rate changes, significant unusual or infrequent items, and certain changes in the assessment of the realizability of deferred tax assets are excluded from the determination of our estimated annual effective tax rate as such items are recognized as discrete items in the quarter in which they occur.

For the Current Quarter, our estimated annual effective tax rate is 0.0% as a result of maintaining a full valuation allowance against our net deferred tax asset. Taking into account our projected operating results for the fourth quarter of 2019, we project remaining in a net deferred tax asset position as of December 31, 2019. Based on all available positive and negative evidence, including projections of future taxable income, we believe it is more likely than not that these deferred tax assets will not be realized. A significant piece of objectively verifiable negative evidence evaluated is the cumulative loss incurred over the rolling thirty-six month period ended September 30, 2019. Such evidence limits our ability to consider various forms of subjective positive evidence, such as any projections for future growth and earnings. However, should we return to a level of sustained profitability, consideration will need to be given to projections of future taxable income to determine whether such projections provide an adequate source of taxable income for the realization of our deferred tax assets. A full valuation allowance was recorded against our net deferred tax asset position as of September 30, 2019 and December 31, 2018.

On February 1, 2019, we completed the acquisition of WildHorse. For federal income tax purposes, the transaction qualified as a tax-free merger under Section 368 of the Internal Revenue Code of 1986, as amended, (the â€œCodeâ€) and, as a result, we acquired carryover tax basis in WildHorseâ€™s assets and liabilities. We recorded a net deferred tax liability of $314 million as part of the business combination accounting for WildHorse. As a consequence of maintaining a full valuation allowance against our net deferred tax asset, a partial release of the valuation allowance was recorded as a discrete income tax benefit of $314 million through the condensed consolidated statement of operations in the first quarter of 2019. The net deferred tax liability acquired includes deferred tax liabilities on plant, property and equipment and prepaid compensation totaling $401 million, partially offset by deferred tax assets totaling $87 million relating to federal net operating loss (NOL) carryforwards, disallowed interest carryforwards and certain other deferred tax assets. These carryforwards will be subject to an annual limitation under Section 382 of the Code of approximately $61 million. We determined that no separate valuation allowances were required to be established through business combination accounting against any of the individual deferred tax assets acquired.

We are subject to U.S. federal income tax as well as income and capital taxes in various state jurisdictions in which we operate. We recorded an income tax benefit of $1 million for the Current Quarter and an income tax benefit of $315 million for the Current Period. The benefit for the Current Period was a result of the aforementioned discrete item relating to the partial release of the valuation allowance in the amount of $314 million and state income tax refunds resulting from the filing of amended state income tax returns reporting federal audit adjustments.

Our ability to utilize NOL carryforwards and possibly other tax attributes to reduce future federal taxable income and federal income tax is subject to various limitations under Section 382 of the Code. The utilization of these attributes may be subject to an annual limitation under Section 382 of the Code should transactions involving our equity, including issuances of our stock or the sale or exchange of our stock by certain shareholders, result in a cumulative shift of more than 50% in the beneficial ownership of our stock during any three-year testing period (an â€œOwnership Changeâ€). (For this purpose, â€œstockâ€ includes certain preferred stock). Some states impose similar limitations on tax attribute utilization upon experiencing an Ownership Change.

As of September 30, 2019, we do not believe that an Ownership Change has occurred that would subject us to an annual limitation on the utilization of our NOL carryforwards, disallowed interest carryforwards and other tax attributes. However, the exchanges of our common stock for certain outstanding senior notes that occurred during the Current Quarter (see Note 6 for further details of the debt exchanges) and the exchange of our common stock for certain Cumulative Convertible Preferred Stock which also occurred during the Current Quarter (see Note 12 for further details of the stock exchange) increased our cumulative shift to over 40%. As a result, future transactions involving our equity, including relatively small transactions and transactions beyond our control, could cause an Ownership Change and therefore an annual limitation on the utilization of NOL carryforwards, disallowed interest carryforwards and possibly other tax attributes.

Further, proposed regulations issued on September 10, 2019, under Section 382(h) of the Code (the â€œProposed Regulationsâ€) would, if finalized in their current form, significantly reduce our annual limitation should we experience an Ownership Change on or after the date the Proposed Regulations become final. Among other changes, the Proposed Regulations would, if finalized in their current form, limit the potential increases to the annual limitation amount associated with certain built-in gains existing at the time of an Ownership Change, thereby significantly reducing the ability to utilize tax attributes. As a result, certain NOL carryforwards, disallowed interest carryforwards and other tax attributes may need to be written off or have a valuation allowance maintained against them possibly leading to a material charge to income tax expense.

12. Equity

Common Stock

A summary of the changes in our common shares issued is detailed below.

	Three Months Ended September 30,		Nine Months Ended, September 30,	
	2019	**2018**	**2019**	**2018**
	(in thousands)			
Beginning balance	1,634,486	913,271	913,716	908,733
Common shares issued for WildHorse Merger[(a)]	â€”	â€”	717,376	â€”
Exchange of convertible notes[(b)]	73,389	â€”	73,389	â€”
Exchange of senior notes[(b)]	235,564	â€”	235,564	â€”
Exchange of preferred stock[(c)]	10,368	â€”	10,368	â€”
Restricted stock issuances (net of forfeitures and cancellations)[(d)]	344	421	3,738	4,959
Ending balance	1,954,151	913,692	1,954,151	913,692

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(a) See Note 3 for discussion of WildHorse Merger.

(b) See Note 6 for discussion of debt exchanges.

(c) In the Current Quarter, we exchanged 10,367,950 shares of common stock for 40,000 shares of our 5.75% (Series A) Cumulative Convertible Preferred Stock. In connection with the exchange, we recognized a loss equal to the excess of the fair value of all common stock issued in exchange for the preferred stock over the fair value of the common stock issuable pursuant to the original terms of the preferred stock. The loss of $17 million is reflected as a reduction to net income available to common stockholders for the purpose of calculating earnings per common share.

(d) See Note 13 for discussion of restricted stock.

Preferred Stock

A summary of the changes in our outstanding shares of preferred stock is detailed below.

	5.75%	5.75% (A)	4.50%	5.00% (2005B)
	(in thousands)			
Shares outstanding as of July 1, 2019	770	463	2,559	1,811
Exchange of preferred stock[(a)]	â€”	(40)	â€”	â€”
Shares outstanding as of September 30, 2019	770	423	2,559	1,811
Shares outstanding as of July 1, 2018 and September 30, 2018	770	463	2,559	1,811
Shares outstanding as of January 1, 2019	770	463	2,559	1,811
Exchange of preferred stock[(a)]	â€”	(40)	â€”	â€”
Shares outstanding as of September 30, 2019	770	423	2,559	1,811
Shares outstanding as of January 1, 2018 and September 30, 2018	770	463	2,559	1,811
Liquidation price per share	$ 1,000	$ 1,000	$ 100	$ 100

(a) See discussion above regarding the exchange of our 5.75% (Series A) Cumulative Convertible Preferred Stock in the Current Quarter.

13. Share-Based Compensation

Our share-based compensation program consists of restricted stock, stock options, performance share units (PSUs) and cash restricted stock units (CRSUs) granted to employees and restricted stock granted to non-employee directors under our long-term incentive plans. The restricted stock and stock options are equity-classified awards and the PSUs and CRSUs are liability-classified awards.

Equity-Classified Awards

Restricted Stock. We grant restricted stock units to employees and non-employee directors. A summary of the changes in unvested restricted stock during the Current Period is presented below:

	Shares of Unvested Restricted Stock	Weighted Average Grant Date Fair Value Per Share
	(in thousands)	
Unvested restricted stock as of January 1, 2019	11,858	$ 4.43
Granted	5,370	$ 2.85
Vested	(5,439)	$ 4.46
Forfeited	(1,241)	$ 3.75
Unvested restricted stock as of September 30, 2019	10,548	$ 3.69

The aggregate intrinsic value of restricted stock that vested during the Current Period was approximately $15 million based on the stock price at the time of vesting.

As of September 30, 2019, there was approximately $24 million of total unrecognized compensation expense related to unvested restricted stock. The expense is expected to be recognized over a weighted average period of approximately 1.92 years.

Stock Options. In the Current Period and the Prior Period, we granted members of management stock options that vest ratably over a three-year period. Each stock option award has an exercise price equal to the closing price of our common stock on the grant date. Outstanding options expire seven years to ten years from the date of grant.

We utilize the Black-Scholes option pricing model to measure the fair value of stock options. The expected life of an option is determined using the simplified method. Volatility assumptions are estimated based on the average historical volatility of Chesapeake stock over the expected life of an option. The risk-free interest rate is based on the U.S. Treasury rate in effect at the time of the grant over the expected life of the option. The dividend yield is based on an annual dividend yield, taking into account our dividend policy, over the expected life of the option. We used the following weighted average assumptions to estimate the grant date fair value of the stock options granted in the Current Period:

Expected option life â€“ years	6.0
Volatility	65.61%
Risk-free interest rate	2.47%
Dividend yield	â€”%

The following table provides information related to stock option activity in the Current Period:

	Number of Shares Underlying Options	Weighted Average Exercise Price Per Share	Weighted Average Contract Life in Years	Aggregate Intrinsic Value[(a)]
	(in thousands)			($ in millions)
Outstanding as of January 1, 2019	18,096	$ 7.20	7.15	$ â€”
Granted	1,000	$ 2.97		
Exercised	â€”	$ â€”		$ â€”
Expired	(487)	$ 6.49		
Forfeited	(589)	$ 3.92		
Outstanding as of September 30, 2019	18,020	$ 7.09	6.12	$ â€”
Exercisable as of September 30, 2019	12,999	$ 8.30	5.31	$ â€”

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(a) The intrinsic value of a stock option is the amount by which the current market value or the market value upon exercise of the underlying stock exceeds the exercise price of the option.

As of September 30, 2019, there was $7 million of total unrecognized compensation expense related to stock options. The expense is expected to be recognized over a weighted average period of approximately 1.26 years, net of actual forfeitures.

Restricted Stock and Stock Option Compensation. We recognized the following compensation costs related to restricted stock and stock options for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	($ in millions)			
General and administrative expenses	$ 6	$ 7	$ 21	$ 24
Oil and natural gas properties	1	â€”	2	2
Oil, natural gas and NGL production expenses	1	1	3	4
Exploration expenses	â€”	â€”	â€”	â€”
Total restricted stock and stock option compensation	$ 8	$ 8	$ 26	$ 30

Liability-Classified Awards

Performance Share Units. In the Current Period and the Prior Period, we granted PSUs to senior management that vest ratably over a three-year performance period and are settled in cash. The ultimate amount earned is based on achievement of performance metrics established by the Compensation Committee of the Board of Directors. Compensation expense associated with PSU awards is recognized over the service period based on the graded-vesting method. The value of the PSU awards at the end of each reporting period is dependent upon our estimates of the underlying performance measures.

For PSUs granted in 2017, performance metrics include a total shareholder return (TSR) component, which can range from 0% to 100% and an operational performance component based on finding and development costs, which can range from 0% to 100%, resulting in a maximum payout of 200%. The payout percentage for the 2017 PSU awards is capped at 100% if our absolute TSR is less than zero. The PSUs are settled in cash on the third anniversary of the awards. We utilized a Monte Carlo simulation for the TSR performance measure and the following assumptions to determine the grant date fair value and the reporting date fair value of the 2017 awards.

Grant Date Assumptions

Assumption	2017 Awards
Volatility	80.65%
Risk-free interest rate	1.54%
Dividend yield for value of awards	â€”%

Reporting Period Assumptions

Assumption	2017 Awards
Volatility	95.41%
Risk-free interest rate	1.87%
Dividend yield for value of awards	â€”%

As the above assumptions and expected satisfaction of performance metrics change, the PSU liabilities will be adjusted quarterly through the end of the performance period.

For PSUs granted in 2018 and 2019, performance metrics include an operational performance component based on a ratio of cumulative earnings before interest expense, income taxes, and depreciation, depletion and amortization expense (EBITDA) to capital expenditures, for which payout can range from 0% to 200%. For the 2019 award, EBITDA and capital expenditures will be adjusted for changes resulting from our conversion from the full cost method of accounting to the successful efforts method. The vested PSUs are settled in cash on each of the three annual vesting dates. We used the closing price of our common stock on the grant date to determine the grant date fair value of the PSUs. The PSU liability will be adjusted quarterly, based on changes in our stock price and expected satisfaction of performance metrics, through the end of the performance period.

Cash Restricted Stock Units. In 2018, we granted CRSUs to employees that vest straight-line over a three-year period and are settled in cash on each of the three annual vesting dates. The ultimate amount earned is based on the closing price of our common stock on each of the vesting dates. We used the closing price of our common stock on the grant date to determine the grant date fair value of the CRSUs. The CRSU liability will be adjusted quarterly, based on changes in our stock price, through the end of the vesting period.

The following table presents a summary of our liability-classified awards:

	Units	Grant Date Fair Value	September 30, 2019 Fair Value	September 30, 2019 Vested Liability
		($ in millions)	($ in millions)	
2019 PSU Awards:				
Payable 2020, 2021 and 2022	4,785,372	$ 14	$ 7	$ â€"
2018 PSU Awards:				
Payable 2020 and 2021	2,388,185	$ 7	$ 3	$ â€"
2017 PSU Awards:				
Payable 2020	1,174,973	$ 8	$ 1	$ 1
2018 CRSU Awards:				
Payable 2020 and 2021	9,267,227	$ 28	$ 13	$ â€"

We recognized the following compensation costs, net of actual forfeitures, related to our liability-classified awards for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period.

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
	($ in millions)			
General and administrative expenses	$ (1)	$ (1)	$ 7	$ 20
Oil and natural gas properties	1	1	2	2
Oil, natural gas and NGL production expenses	â€"	1	3	3
Exploration expenses	â€"	â€"	â€"	1
Total liability-classified awards compensation	$ â€"	$ 1	$ 12	$ 26

14. Derivative and Hedging Activities

We use derivative instruments to reduce our exposure to fluctuations in future commodity prices and to protect our expected operating cash flow against significant market movements or volatility. All of our oil, natural gas and NGL derivative instruments are net settled based on the difference between the fixed-price payment and the floating-price payment, resulting in a net amount due to or from the counterparty. None of our open oil, natural gas or NGL derivative instruments were designated for hedge accounting as of September 30, 2019 or December 31, 2018.

Oil, Natural Gas and NGL Derivatives

As of September 30, 2019 and December 31, 2018, our oil, natural gas and NGL derivative instruments consisted of the following types of instruments:

â€¢ *Swaps*: We receive a fixed price and pay a floating market price to the counterparty for the hedged commodity. In exchange for higher fixed prices on certain of our swap trades, we may sell call options and call swaptions.

â€¢ *Options*: We occasionally sell and buy call and put options in exchange for a premium. At the time of settlement, if the market price exceeds the fixed price of the call option, we pay the counterparty the excess on sold call options and we receive the excess on bought call options. At the time of settlement, if the market price is lower than the fixed price of the put option, we receive the difference on bought put options and pay the counterparty the difference on sold put options. If the market price settles below the fixed price of the call option or above the fixed price of the put option, no payment is due from either party.

â€¢ *Call Swaptions*: We sell call swaptions to counterparties in exchange for a premium that allow the counterparty, on a specific date, to extend an existing fixed-price swap for a certain period of time or to increase the notional volumes of an existing fixed-price swap.

â€¢ *Collars*: These instruments contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, we receive the fixed price and pay the market price. If the market price is between the put and the call strike prices, no payments are due from either party. Three-way collars include the sale by us of an additional put option in exchange for a more favorable strike price on the call option. This eliminates the counterpartyâ€™s downside exposure below the second put option strike price.

â€¢ *Basis Protection Swaps*: These instruments are arrangements that guarantee a fixed price differential to NYMEX from a specified delivery point. We receive the fixed price differential and pay the floating market price differential to the counterparty for the hedged commodity.

The estimated fair values of our oil, natural gas and NGL derivative instrument assets (liabilities) as of September 30, 2019 and December 31, 2018 are provided below:

	September 30, 2019		December 31, 2018	
	Notional Volume	Fair Value	Notional Volume	Fair Value
		($ in millions)		($ in millions)
Oil (mmbbl):				
Fixed-price swaps	22	$ 152	12	$ 157
Collars	3	33	8	98
Call swaptions	2	(1)	â€”	â€”
Put options	1	(2)	â€”	â€”
Basis protection swaps	2	4	7	5
Total oil	30	186	27	260
Natural gas (bcf):				
Fixed-price swaps	383	139	623	26
Three-way collars	15	3	88	1
Collars	9	3	55	(3)
Call options	28	â€”	44	â€”
Call swaptions	136	(7)	106	(9)
Basis protection swaps	54	(1)	50	â€”
Total natural gas	625	137	966	15
Contingent consideration:				
Utica divestiture		â€”		7
Total estimated fair value		$ 323		$ 282

We have terminated certain commodity derivative contracts that were previously designated as cash flow hedges for which the original contract months are yet to occur. See further discussion below under *Effect of Derivative Instruments â€“ Accumulated Other Comprehensive Income (Loss)*.

Contingent Consideration Arrangements

In 2018, we sold our Utica Shale position to EAP Ohio, LLC (â€œEncinoâ€). The purchase and sale agreement with Encino provides for additional contingent payments to us of up to $100 million comprised of $50 million in consideration in each case if, on or prior to December 31, 2019, there is a period of twenty (20) trading days out of a period of thirty (30) consecutive trading days where (i) the average of the NYMEX natural gas strip prices for the months comprising the year 2022 equals or exceeds $3.00/mmbtu as calculated pursuant to the purchase agreement, and (ii) the average of the NYMEX natural gas strip price for the months comprising the year 2023 equals or exceeds $3.25/mmbtu as calculated pursuant to the purchase and sale agreement.

In the Current Period, based on the unlikelihood of any payout occurring related to the contingent consideration, we determined the contingent consideration had no fair value and recognized a $7 million unrealized loss, which is included as a reduction in our gains on sales of assets in the condensed consolidated statement of operations.

Effect of Derivative Instruments â€“ Condensed Consolidated Balance Sheets

The following table presents the fair value and location of each classification of derivative instrument included in the condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018 on a gross basis and after same-counterparty netting:

Balance Sheet Classification	Gross Fair Value	Amounts Netted in the Consolidated Balance Sheets	Net Fair Value Presented in the Consolidated Balance Sheet
		($ in millions)	
As of September 30, 2019			
Commodity Contracts:			
Short-term derivative asset	$ 294	$ (22)	$ 272
Long-term derivative asset	55	(4)	51
Short-term derivative liability	(22)	22	â€”
Long-term derivative liability	(4)	4	â€”
Contingent Consideration:			
Short-term derivative asset	â€”	â€”	â€”
Total derivatives	$ 323	$ â€”	$ 323
As of December 31, 2018			
Commodity Contracts:			
Short-term derivative asset	$ 306	$ (104)	$ 202
Long-term derivative asset	117	(41)	76
Short-term derivative liability	(107)	104	(3)
Long-term derivative liability	(41)	41	â€”
Contingent Consideration:			
Short-term derivative asset	7	â€”	7
Total derivatives	$ 282	$ â€”	$ 282

Effect of Derivative Instruments â€“ Condensed Consolidated Statements of Operations

The components of oil, natural gas and NGL revenues for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
		($ in millions)		
Oil, natural gas and NGL revenues	$ 1,003	$ 1,331	$ 3,412	$ 3,924
Gains (losses) on undesignated oil, natural gas and NGL derivatives	175	(124)	167	(475)
Losses on terminated cash flow hedges	(8)	(8)	(26)	(25)
Total oil, natural gas and NGL revenues	$ 1,170	$ 1,199	$ 3,553	$ 3,424

The components of marketing revenues for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	($ in millions)			
Marketing revenues	$ 889	$ 1,219	$ 3,042	$ 3,738
Losses on undesignated marketing natural gas derivatives	â€”	â€”	(4)	â€”
Total marketing revenues	$ 889	$ 1,219	$ 3,038	$ 3,738

Effect of Derivative Instruments â€“ Accumulated Other Comprehensive Income (Loss)

A reconciliation of the changes in accumulated other comprehensive income (loss) in our condensed consolidated statements of stockholdersâ€™ equity related to our cash flow hedges is presented below:

	Three Months Ended September 30,			
	2019		2018	
	Before Tax	After Tax	Before Tax	After Tax
	($ in millions)			
Balance, beginning of period	$ (62)	$ (5)	$ (97)	(40)
Losses reclassified to income	8	8	8	8
Balance, end of period	$ (54)	$ 3	$ (89)	$ (32)

	Nine Months Ended September 30,			
	2019		2018	
	Before Tax	After Tax	Before Tax	After Tax
	($ in millions)			
Balance, beginning of period	$ (80)	$ (23)	$ (114)	(57)
Losses reclassified to income	26	26	25	25
Balance, end of period	$ (54)	$ 3	$ (89)	$ (32)

The accumulated other comprehensive loss as of September 30, 2019 represents the net deferred loss associated with commodity derivative contracts that were previously designated as cash flow hedges for which the original contract months are yet to occur. Remaining deferred gain or loss amounts will be recognized in earnings in the month for which the original contract months are to occur. As of September 30, 2019, we expect to transfer approximately $34 million of net loss included in accumulated other comprehensive income (loss) to net income (loss) during the next 12 months. The remaining amounts will be transferred by December 31, 2022.

Credit Risk Considerations

Our derivative instruments expose us to our counterpartiesâ€™ credit risk. To mitigate this risk, we enter into derivative contracts only with counterparties that have a high credit rating or are deemed by us to have acceptable credit strength, and are deemed by management to be competent and competitive market-makers, and we attempt to limit our exposure to non-performance by any single counterparty. As of September 30, 2019, our oil, natural gas and NGL derivative instruments were spread among 15 counterparties.

Hedging Arrangements

Certain of our hedging arrangements are with counterparties that are also lenders (or affiliates of lenders) under the Chesapeake revolving credit facility and/or the BVL revolving credit facility. The contracts entered into with these counterparties are secured by the same collateral that secures the revolving credit facilities. In addition, we enter into bilateral hedging agreements with other counterparties. The counterpartiesâ€™ and our obligations under the bilateral hedging agreements must be secured by cash or letters of credit to the extent that any mark-to-market amounts owed to us or by us exceed defined thresholds. As of September 30, 2019, there were no letters of credit or cash posted as collateral for our commodity derivatives.

Fair Value

The fair value of our derivatives is based on third-party pricing models which utilize inputs that are either readily available in the public market, such as oil, natural gas and NGL forward curves and discount rates, or can be corroborated from active markets or broker quotes. These values are compared to the values given by our counterparties for reasonableness. Since oil, natural gas and NGL swaps do not include optionality and therefore generally have no unobservable inputs, they are classified as Level 2. All other derivatives have some level of unobservable input, such as volatility curves, and are therefore classified as Level 3. Derivatives are also subject to the risk that either party to a contract will be unable to meet its obligations. We factor non-performance risk into the valuation of our derivatives using current published credit default swap rates. To date, this has not had a material impact on the values of our derivatives.

The following table provides information for financial assets (liabilities) measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	($ in millions)			
As of September 30, 2019				
Derivative Assets (Liabilities):				
Commodity assets	$ â€”	$ 307	$ 40	$ 347
Commodity liabilities	â€”	(16)	(8)	(24)
Utica divestiture contingent consideration	â€”	â€”	â€”	â€”
Total derivatives	$ â€”	$ 291	$ 32	$ 323
As of December 31, 2018				
Derivative Assets (Liabilities):				
Commodity assets	$ â€”	$ 319	$ 103	$ 422
Commodity liabilities	â€”	(131)	(16)	(147)
Utica divestiture contingent consideration	â€”	â€”	7	7
Total derivatives	$ â€”	$ 188	$ 94	$ 282

A summary of the changes in the fair values of our financial assets (liabilities) classified as Level 3 during the Current Period and the Prior Period is presented below:

	Commodity Derivatives		Utica Contingent Consideration	
	($ in millions)			
Balance, as of January 1, 2019	$	87	$	7
Total gains (losses) (realized/unrealized):				
Included in earnings[a]		(47)		(7)
Total purchases, issuances, sales and settlements:				
Settlements		(8)		â€”
Balance, as of September 30, 2019	$	32	$	â€”
Balance, as of January 1, 2018	$	(15)	$	â€”
Total gains (losses) (realized/unrealized):				
Included in earnings[a]		(3)		â€”
Total purchases, issuances, sales and settlements:				
Settlements		13		â€”
Balance, as of September 30, 2018	$	(5)	$	â€”

(a)

	Commodity Derivatives				Utica Contingent Consideration			
	2019		2018		2019		2018	
	($ in millions)							
Total gains (losses) included in earnings for the period	$	(47)	$	(3)	$	(7)	$	â€”
Change in unrealized gains (losses) related to assets still held at reporting date	$	(57)	$	(3)	$	(7)	$	â€”

Qualitative and Quantitative Disclosures about Unobservable Inputs for Level 3 Fair Value Measurements

The significant unobservable inputs for Level 3 derivative contracts include market volatility. Changes in market volatility impact the fair value measurement of our derivative contracts, which is based on an estimate derived from option models. For example, an increase or decrease in the forward prices and volatility of oil and natural gas prices decreases or increases the fair value of oil and natural gas derivatives. The following table presents quantitative information about Level 3 inputs used in the fair value measurement of our commodity derivative contracts at fair value as of September 30, 2019:

Instrument Type	Unobservable Input	Range	Weighted Average	Fair Value September 30, 2019	
				($ in millions)	
Oil trades	Oil price volatility curves	24.62% â€“ 48.77%	32.55%	$	33
Natural gas trades	Natural gas price volatility curves	13.37% â€“ 145.37%	37.40%	$	(1)

15. Investments

In the Current Period in connection with the acquisition of WildHorse, we obtained a 50% membership interest in JWH Midstream LLC (JWH). The carrying value of our investment in JWH, which was being accounted for as an equity method investment, was approximately $17 million as of March 31, 2019. In the Current Period, we paid approximately $7 million to terminate our involvement in the partnership. This removed us from any future obligations related to this joint venture and, therefore, we impaired the full value of the investment and recognized approximately $24 million of impairment expense in the Current Period.

In the Prior Period, FTS International, Inc. (NYSE: FTSI) completed an initial public offering. Due to the offering, the ownership percentage of our equity method investment in FTSI decreased from approximately 29% to 24% and resulted in a gain of approximately $78 million. In addition, we sold approximately 4.3 million shares of FTSI in the offering for net proceeds of approximately $74 million and recognized a gain of approximately $61 million decreasing our ownership percentage to approximately 20%. We continue to hold approximately 22.0 million shares in the publicly traded company. In the Current Period, the hydraulic fracturing industry experienced challenging operating conditions resulting in the current fair value of our investment in FTSI to fall below book value of $65 million at the end of the Current Quarter. Given that the average NYSE closing price for FTSI shares in the Current Quarter exceeded our carrying value per share and more often than not the closing price was greater than our carrying value per share, we have not assessed the reduction in fair value of our investment in FTSI to be other-than-temporary. We will continue to monitor the hydraulic fracturing industry, FTSI operating results and FTSI share price for indications that the reduction in fair value is other-than-temporary, which could result in an impairment of our investment in FTSI.

16. Other Operating Expenses

In the Current Period, we recorded approximately $34 million of costs related to our acquisition of WildHorse which consisted of consulting fees, financial advisory fees, legal fees and travel and lodging expenses. In addition, we recorded approximately $38 million of severance expense as a result of the acquisition of WildHorse. A majority of the WildHorse executives and employees were terminated. These executives and employees were entitled to severance benefits in accordance with existing employment agreements.

17. Restructuring and Other Termination Costs

On January 30, 2018, we underwent a reduction in workforce impacting approximately 13% of employees across all functions, primarily on our Oklahoma City campus. In connection with the reduction, we incurred a total charge in the Prior Period of approximately $38 million for one-time termination benefits.

18. Fair Value Measurements

Recurring Fair Value Measurements

Other Current Assets. Assets related to our deferred compensation plan are included in other current assets. The fair value of these assets is determined using quoted market prices, as they consist of exchange-traded securities.

Other Current Liabilities. Liabilities related to our deferred compensation plan are included in other current liabilities. The fair values of these liabilities are determined using quoted market prices, as the plan consists of exchange-traded mutual funds.

Financial Assets (Liabilities). The following table provides fair value measurement information for the above-noted financial assets (liabilities) measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	($ in millions)			
As of September 30, 2019				
Financial Assets (Liabilities):				
Other current assets	$ 46	$ â€”	$ â€”	$ 46
Other current liabilities	(45)	â€”	â€”	(45)
Total	$ 1	$ â€”	$ â€”	$ 1
As of December 31, 2018				
Financial Assets (Liabilities):				
Other current assets	$ 50	$ â€”	$ â€”	$ 50
Other current liabilities	(51)	â€”	â€”	(51)
Total	$ (1)	$ â€”	$ â€”	$ (1)

See Note 6 for information regarding fair value measurement of our debt instruments. See Note 14 for information regarding fair value measurement of our derivatives.

19. Condensed Consolidating Financial Information

Chesapeake Energy Corporation is a holding company, owns no operating assets and has no significant operations independent of its subsidiaries. Our obligations under our outstanding senior notes, convertible senior notes and Chesapeake revolving credit facility listed in Note 6 are fully and unconditionally guaranteed, jointly and severally, by certain of our 100% owned subsidiaries. Our BVL subsidiaries are not guarantors of Chesapeakeâ€™s indebtedness and are subject to covenants under the BVL credit agreement and BVL indenture. Subsidiaries with noncontrolling interests, consolidated variable interest entities and certain de minimis subsidiaries are also non-guarantors.

The tables below are condensed consolidating financial statements for Chesapeake Energy Corporation (parent) on a stand-alone, unconsolidated basis, and its combined guarantor and combined non-guarantor subsidiaries as of September 30, 2019 and December 31, 2018 and for the three and six months ended September 30, 2019 and 2018. This financial information may not necessarily be indicative of our results of operations, cash flows or financial position had these subsidiaries operated as independent entities.

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2019
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$ 8	$ 1	$ 10	$ (5)	$ 14
Other current assets	56	1,231	102	â€”	1,389
Intercompany receivable, net	6,275	â€”	â€”	(6,275)	â€”
Total Current Assets	6,339	1,232	112	(6,280)	1,403
PROPERTY AND EQUIPMENT:					
Oil and natural gas properties, at cost based on successful efforts accounting, net	â€”	9,513	4,221	â€”	13,734
Other property and equipment, net	â€”	1,046	86	â€”	1,132
Property and equipment held for sale, net	â€”	10	â€”	â€”	10
Total Property and Equipment, Net	â€”	10,569	4,307	â€”	14,876
LONG-TERM ASSETS:					
Other long-term assets	336	231	30	(297)	300
Investments in subsidiaries and intercompany advances	6,013	2,338	â€”	(8,351)	â€”
TOTAL ASSETS	$ 12,688	$ 14,370	$ 4,449	$ (14,928)	$ 16,579
CURRENT LIABILITIES:					
Current liabilities	$ 325	$ 1,805	$ 223	$ (5)	$ 2,348
Intercompany payable, net	â€”	6,275	â€”	(6,275)	â€”
Total Current Liabilities	325	8,080	223	(6,280)	2,348
LONG-TERM LIABILITIES:					
Long-term debt, net	7,612	â€”	1,521	â€”	9,133
Deferred income tax liabilities	â€”	â€”	297	(297)	â€”
Other long-term liabilities	55	277	31	â€”	363
Total Long-Term Liabilities	7,667	277	1,849	(297)	9,496
EQUITY:					
Chesapeake stockholdersâ€™ equity	4,696	6,013	2,338	(8,351)	4,696
Noncontrolling interests	â€”	â€”	39	â€”	39
Total Equity	4,696	6,013	2,377	(8,351)	4,735
TOTAL LIABILITIES AND EQUITY	$ 12,688	$ 14,370	$ 4,449	$ (14,928)	$ 16,579

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CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2018
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$ 4	$ 1	$ 1	$ (2)	$ 4
Other current assets	60	1,532	2	â€”	1,594
Intercompany receivable, net	6,671	â€”	â€”	(6,671)	â€”
Total Current Assets	6,735	1,533	3	(6,673)	1,598
PROPERTY AND EQUIPMENT:					
Oil and natural gas properties, at cost based on successful efforts accounting, net	â€”	9,664	48	â€”	9,712
Other property and equipment, net	â€”	1,091	â€”	â€”	1,091
Property and equipment held for sale, net	â€”	15	â€”	â€”	15
Total Property and Equipment, Net	â€”	10,770	48	â€”	10,818
LONG-TERM ASSETS:					
Other long-term assets	26	293	â€”	â€”	319
Investments in subsidiaries and intercompany advances	3,248	9	â€”	(3,257)	â€”
TOTAL ASSETS	$ 10,009	$ 12,605	$ 51	$ (9,930)	$ 12,735
CURRENT LIABILITIES:					
Current liabilities	$ 523	$ 2,365	$ 1	$ (2)	$ 2,887
Intercompany payable, net	â€”	6,671	â€”	(6,671)	â€”
Total Current Liabilities	523	9,036	1	(6,673)	2,887
LONG-TERM LIABILITIES:					
Long-term debt, net	7,341	â€”	â€”	â€”	7,341
Other long-term liabilities	53	321	â€”	â€”	374
Total Long-Term Liabilities	7,394	321	â€”	â€”	7,715
EQUITY:					
Chesapeake stockholdersâ€™ equity	2,092	3,248	9	(3,257)	2,092
Noncontrolling interests	â€”	â€”	41	â€”	41
Total Equity	2,092	3,248	50	(3,257)	2,133
TOTAL LIABILITIES AND EQUITY	$ 10,009	$ 12,605	$ 51	$ (9,930)	$ 12,735

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS â€“ (Continued)
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2019
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Oil, natural gas and NGL	$ â€”	$ 932	$ 238	$ â€”	$ 1,170
Marketing	â€”	889	â€”	â€”	889
Total Revenues	â€”	1,821	238	â€”	2,059
Other	â€”	15	â€”	â€”	15
Gains on sales of assets	â€”	13	â€”	â€”	13
Total Revenues and Other	â€”	1,849	238	â€”	2,087
OPERATING EXPENSES:					
Oil, natural gas and NGL production	â€”	129	26	â€”	155
Oil, natural gas and NGL gathering, processing and transportation	â€”	268	2	â€”	270
Production taxes	â€”	25	10	â€”	35
Exploration	â€”	17	â€”	â€”	17
Marketing	â€”	901	â€”	â€”	901
General and administrative	â€”	43	23	â€”	66
Depreciation, depletion and amortization	â€”	421	152	â€”	573
Impairments	â€”	9	â€”	â€”	9
Other operating expense	â€”	15	â€”	â€”	15
Total Operating Expenses	â€”	1,828	213	â€”	2,041
INCOME FROM OPERATIONS	â€”	21	25	â€”	46
OTHER INCOME (EXPENSE):					
Interest income (expense)	(161)	3	(19)	â€”	(177)
Losses on investments	â€”	(4)	â€”	â€”	(4)
Gains on purchases or exchanges of debt	64	â€”	6	â€”	70
Other income	â€”	3	â€”	â€”	3
Equity in net earnings of subsidiary	25	2	â€”	(27)	â€”
Total Other Income (Expense)	(72)	4	(13)	(27)	(108)
INCOME (LOSS) BEFORE INCOME TAXES	(72)	25	12	(27)	(62)
INCOME TAX (BENEFIT) EXPENSE	(11)	â€”	10	â€”	(1)
NET INCOME (LOSS)	(61)	25	2	(27)	(61)
Net loss attributable to noncontrolling interests	â€”	â€”	â€”	â€”	â€”
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	(61)	25	2	(27)	(61)
Other comprehensive income	â€”	8	â€”	â€”	8
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$ (61)	$ 33	$ 2	$ (27)	$ (53)

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2018
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Oil, natural gas and NGL	$ â€”	$ 1,194	$ 5	$ â€”	$ 1,199
Marketing	â€”	1,219	â€”	â€”	1,219
Total Revenues	â€”	2,413	5	â€”	2,418
Other	â€”	16	â€”	â€”	16
Losses on sales of assets	â€”	(10)	â€”	â€”	(10)
Total Revenues and Other	â€”	2,419	5	â€”	2,424
OPERATING EXPENSES:					
Oil, natural gas and NGL production	â€”	132	â€”	â€”	132
Oil, natural gas and NGL gathering, processing and transportation	â€”	362	2	â€”	364
Production taxes	â€”	33	1	â€”	34
Exploration	â€”	22	â€”	â€”	22
Marketing	â€”	1,238	â€”	â€”	1,238
General and administrative	â€”	81	â€”	â€”	81
Provision for legal contingencies, net	â€”	8	â€”	â€”	8
Depreciation, depletion and amortization	â€”	403	2	â€”	405
Impairments	â€”	58	â€”	â€”	58
Total Operating Expenses	â€”	2,337	5	â€”	2,342
INCOME FROM OPERATIONS	â€”	82	â€”	â€”	82
OTHER INCOME (EXPENSE):					
Interest expense	(163)	(2)	â€”	â€”	(165)
Losses on purchases or exchanges of debt	(68)	â€”	â€”	â€”	(68)
Other income	â€”	6	â€”	â€”	6
Equity in net earnings of subsidiary	86	â€”	â€”	(86)	â€”
Total Other Income (Expense)	(145)	4	â€”	(86)	(227)
INCOME (LOSS) BEFORE INCOME TAXES	(145)	86	â€”	(86)	(145)
INCOME TAX EXPENSE	1	â€”	â€”	â€”	1
NET INCOME (LOSS)	(146)	86	â€”	(86)	(146)
Net (income) loss attributable to noncontrolling interests	â€”	â€”	â€”	â€”	â€”
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	(146)	86	â€”	(86)	(146)
Other comprehensive income	â€”	8	â€”	â€”	8
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$ (146)	$ 94	$ â€”	$ (86)	$ (138)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2019
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Oil, natural gas and NGL	$ â€”	$ 3,000	$ 553	$ â€”	$ 3,553
Marketing	â€”	3,038	â€”	â€”	3,038
Total Revenues	â€”	6,038	553	â€”	6,591
Other	â€”	45	â€”	â€”	45
Gains on sales of assets	â€”	33	â€”	â€”	33
Total Revenues and Other	â€”	6,116	553	â€”	6,669
OPERATING EXPENSES:					
Oil, natural gas and NGL production	â€”	384	69	â€”	453
Oil, natural gas and NGL gathering, processing and transportation	â€”	802	13	â€”	815
Production taxes	â€”	83	26	â€”	109
Exploration	â€”	53	3	â€”	56
Marketing	â€”	3,071	â€”	â€”	3,071
General and administrative	â€”	193	65	â€”	258
Provision for legal contingencies, net	â€”	3	â€”	â€”	3
Depreciation, depletion and amortization	â€”	1,295	377	â€”	1,672
Impairments	â€”	11	â€”	â€”	11
Other operating expense	â€”	41	38	â€”	79
Total Operating Expenses	â€”	5,936	591	â€”	6,527
INCOME (LOSS) FROM OPERATIONS	â€”	180	(38)	â€”	142
OTHER INCOME (EXPENSE):					
Interest income (expense)	(475)	13	(51)	â€”	(513)
Losses on investments	â€”	(4)	(24)	â€”	(28)
Gains on purchases or exchanges of debt	64	â€”	6	â€”	70
Other income	â€”	28	2	â€”	30
Equity in net earnings of subsidiary	129	(88)	â€”	(41)	â€”
Total Other Expense	(282)	(51)	(67)	(41)	(441)
INCOME (LOSS) BEFORE INCOME TAXES	(282)	129	(105)	(41)	(299)
INCOME TAX BENEFIT	(298)	â€”	(17)	â€”	(315)
NET INCOME (LOSS)	16	129	(88)	(41)	16
Net loss attributable to noncontrolling interests	â€”	â€”	â€”	â€”	â€”
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	16	129	(88)	(41)	16
Other comprehensive income	â€”	26	â€”	â€”	26
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$ 16	$ 155	$ (88)	$ (41)	$ 42

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS â€“ (Continued)
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2018
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES:					
Oil, natural gas and NGL	$ â€”	$ 3,410	$ 14	$ â€”	$ 3,424
Marketing	â€”	3,738	â€”	â€”	3,738
Total Revenues	â€”	7,148	14	â€”	7,162
Other	â€”	48	â€”	â€”	48
Gains on sales of assets	â€”	27	â€”	â€”	27
Total Revenues and Other	â€”	7,223	14	â€”	7,237
OPERATING EXPENSES:					
Oil, natural gas and NGL production	â€”	417	â€”	â€”	417
Oil, natural gas and NGL gathering, processing and transportation	â€”	1,055	5	â€”	1,060
Production taxes	â€”	90	1	â€”	91
Exploration	â€”	123	â€”	â€”	123
Marketing	â€”	3,798	â€”	â€”	3,798
General and administrative	â€”	272	1	â€”	273
Restructuring and other termination costs	â€”	38	â€”	â€”	38
Provision for legal contingencies, net	â€”	17	â€”	â€”	17
Depreciation, depletion and amortization	â€”	1,330	5	â€”	1,335
Impairments	â€”	122	â€”	â€”	122
Other operating income	â€”	(1)	â€”	â€”	(1)
Total Operating Expenses	â€”	7,261	12	â€”	7,273
INCOME (LOSS) FROM OPERATIONS	â€”	(38)	2	â€”	(36)
OTHER INCOME (EXPENSE):					
Interest expense	(480)	(2)	â€”	â€”	(482)
Gains on investments	â€”	139	â€”	â€”	139
Losses on purchases or exchanges of debt	(68)	â€”	â€”	â€”	(68)
Other income	â€”	62	â€”	â€”	62
Equity in net earnings of subsidiary	162	1	(1)	(162)	â€”
Total Other Income (Expense)	(386)	200	(1)	(162)	(349)
INCOME (LOSS) BEFORE INCOME TAXES	(386)	162	1	(162)	(385)
INCOME TAX BENEFIT	(8)	â€”	â€”	â€”	(8)
NET INCOME (LOSS)	(378)	162	1	(162)	(377)
Net income attributable to noncontrolling interests	â€”	(1)	â€”	â€”	(1)
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	(378)	161	1	(162)	(378)
Other comprehensive income	â€”	25	â€”	â€”	25
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$ (378)	$ 186	$ 1	$ (162)	$ (353)

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS â€“ (Continued)
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2019
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Cash Provided By Operating Activities	$ â€”	$ 898	$ 287	$ (3)	$ 1,182
CASH FLOWS FROM INVESTING ACTIVITIES:					
Drilling and completion costs	â€”	(1,204)	(436)	â€”	(1,640)
Business combination, net	â€”	(381)	28	â€”	(353)
Acquisitions of proved and unproved properties	â€”	(31)	â€”	â€”	(31)
Proceeds from divestitures of proved and unproved properties	â€”	110	â€”	â€”	110
Additions to other property and equipment	â€”	(12)	(15)	â€”	(27)
Other investing activities	â€”	6	â€”	â€”	6
Net Cash Used In Investing Activities	â€”	(1,512)	(423)	â€”	(1,935)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from revolving credit facility borrowings	8,096	â€”	709	â€”	8,805
Payments on revolving credit facility borrowings	(7,011)	â€”	(484)	â€”	(7,495)
Cash paid to purchase debt	(381)	â€”	(76)	â€”	(457)
Cash paid for preferred stock dividends	(69)	â€”	â€”	â€”	(69)
Other financing activities	(13)	(6)	(5)	3	(21)
Intercompany advances, net	(620)	620	1	(1)	â€”
Net Cash Provided By Financing Activities	2	614	145	2	763
Net increase in cash and cash equivalents	2	â€”	9	(1)	10
Cash and cash equivalents, beginning of period	4	1	1	(2)	4
Cash and cash equivalents, end of period	$ 6	$ 1	$ 10	$ (3)	$ 14

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2018
($ in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Cash Provided By Operating Activities	$ 86	$ 1,312	$ 7	$ (10)	$ 1,395
CASH FLOWS FROM INVESTING ACTIVITIES:					
Drilling and completion costs	â€”	(1,407)	â€”	â€”	(1,407)
Acquisitions of proved and unproved properties	â€”	(118)	â€”	â€”	(118)
Proceeds from divestitures of proved and unproved properties	â€”	395	â€”	â€”	395
Additions to other property and equipment	â€”	(11)	â€”	â€”	(11)
Other investing activities	â€”	149	â€”	â€”	149
Net Cash Used In Investing Activities	â€”	(992)	â€”	â€”	(992)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from revolving credit facility borrowings	9,095	â€”	â€”	â€”	9,095
Payments on revolving credit facility borrowings	(9,231)	â€”	â€”	â€”	(9,231)
Proceeds from issuance of senior notes, net	1,237	â€”	â€”	â€”	1,237
Cash paid to purchase debt	(1,285)	â€”	â€”	â€”	(1,285)
Cash paid for preferred stock dividends	(69)	â€”	â€”	â€”	(69)
Other financing activities	(2)	(127)	(9)	(13)	(151)
Intercompany advances, net	170	(193)	1	22	â€”
Net Cash Used In Financing Activities	(85)	(320)	(8)	9	(404)
Net increase (decrease) in cash and cash equivalents	1	â€”	(1)	(1)	(1)
Cash and cash equivalents, beginning of period	5	1	2	(3)	5
Cash and cash equivalents, end of period	$ 6	$ 1	$ 1	$ (4)	$ 4

ITEM 2. *Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations*

Introduction

The following discussion should be read together with the condensed consolidated financial statements included in Item 1 of Part I of this report and our Form 8-K dated May 9, 2019.

We are an independent exploration and production company engaged in the acquisition, exploration and development of properties to produce oil, natural gas and NGL from underground reservoirs. We own a large and geographically diverse portfolio of onshore U.S. unconventional natural gas and liquids assets, including interests in approximately 13,900 oil and natural gas wells. We have leading positions in the liquids-rich resource plays of the Eagle Ford Shale in South Texas, the stacked pay in the Powder River Basin in Wyoming and the Anadarko Basin in northwestern Oklahoma. Our natural gas resource plays are the Marcellus Shale in the northern Appalachian Basin in Pennsylvania and the Haynesville/Bossier Shales in northwestern Louisiana.

Our strategy is to create shareholder value through the development of our significant resource plays. We continue to focus on reducing debt, increasing cash provided by operating activities, improving margins through financial discipline and operating efficiencies and maintaining exceptional environmental and safety performance. To accomplish these goals, we intend to allocate our capital expenditures to projects we believe offer the highest return and value regardless of the commodity price environment, to deploy leading drilling and completion technology throughout our portfolio, and to take advantage of acquisition and divestiture opportunities to strengthen our cost structure and our portfolio. Increasing our margins means not only increasing our absolute level of cash flows from operations, but also increasing our cash flows from operations generated per barrel of oil equivalent production. We continue to seek opportunities to reduce cash costs per barrel of oil equivalent production (production, gathering, processing and transportation and general and administrative) through operational efficiencies, including but not limited to improving our production volumes from existing wells.

Oil and natural gas prices have a material impact on our financial position, results of operations, cash flows and quantities of oil, natural gas and NGL reserves that may be economically produced. Historically, oil and natural gas prices have been volatile, and may be subject to wide fluctuations in the future. Our consolidated EBITDAX (as defined in the Chesapeake credit agreement to exclude amounts associated with unrestricted subsidiaries) has been, and will continue to be, negatively impacted by the recent substantial decline in oil, natural gas and NGL prices. The reduction in our consolidated EBITDAX will adversely affect our ability to comply with the leverage ratio covenant contained in our revolving credit facility during the next 12 months, absent a reduction in our total indebtedness excluding amounts associated with unrestricted subsidiaries. Please read â€œLiquidity and Capital Resources.â€

Management continues to review operational plans for 2019 and beyond and anticipates reducing capital expenditures in 2020 by approximately 30% to target free cash flow.

Our focus remains concentrated on four strategic priorities:

â€¢reduce total leverage to achieve long-term net debt/EBITDAX of 2x;

â€¢increase net cash provided by operating activities to fund capital expenditures;

â€¢improve margins through financial discipline and operating efficiencies; and

â€¢maintain industry leading environmental and safety performance.

During the Current Period, we changed our method of accounting for our oil and natural gas exploration and development activities from the full cost method to the successful efforts method of accounting. Financial information for all periods has been recast to reflect retrospective application of the successful efforts method of accounting. See Note 1 of the notes to our condensed consolidated financial statements included in Item 1 of this 10-Q for further discussion of the change in accounting principle.

Overview

Highlights of 2019 include the following:

â€¢ acquired WildHorse, an oil and gas company with operations in the Eagle Ford Shale and Austin Chalk formations in southeast Texas, for approximately 717.4 million shares of our common stock and $381 million in cash, and the acquisition of WildHorseâ€™s debt of $1.4 billion as of February 1, 2019. We anticipate the acquisition to materially increase our oil production and enhance our oil production mix as well as significantly reduce costs due to operational synergies that we believe the combined company will achieve. We expect that the WildHorse Merger will provide substantial cost savings with $200 million to $280 million in projected average annual savings, totaling $1 billion to $1.5 billion by 2023, due to operational and capital efficiencies as a result of Chesapeakeâ€™s significant expertise with unconventional assets and technical and operational excellence;

â€¢restructured gas gathering and crude oil transportation contracts in the Eagle Ford, improving future returns and liquidity;

â€¢privately negotiated exchanges of approximately $507 million principal amount of our outstanding senior notes for 235,563,519 shares of common stock and $186 million principal amount of our outstanding convertible senior notes for 73,389,094 shares of common stock, reducing annual interest payments;

â€¢exchanged 40,000 shares of our 5.75% (Series A) Cumulative Convertible Preferred Stock for 10,367,950 shares of common stock, reducing annual preferred stock dividend payments;

â€¢extended our debt maturity profile by privately exchanging approximately $884 million aggregate principal amount of our existing senior notes due in 2020 and 2021 for approximately $919 million aggregate principal amount of new 8.00% Senior Notes due 2026; and

â€¢improved our cost structure in the Current Period compared to the Prior Period by reducing combined production, general and administrative, and gathering, processing and transportation expenses by $224 million, or 13%. The primary driver in the reduction is lower gathering, processing and transportation expenses due to certain 2018 divestitures.

Liquidity and Capital Resources

Liquidity Overview

Our ability to grow, make capital expenditures and service our debt depends primarily upon the prices we receive for the oil, natural gas and NGL we sell. Substantial expenditures are required to replace reserves, sustain production and fund our business plans. Fluctuations in oil and natural gas prices have a material impact on our financial position, results of operations, cash flows and quantities of oil, natural gas and NGL reserves that may be economically produced. Historically, oil and natural gas prices have been volatile, and may be subject to wide fluctuations in the future. If depressed prices persist or decline throughout 2020, our ability to comply with the leverage ratio covenant under our revolving credit facility during the next 12 months will be adversely affected and may cause doubt about our ability to continue as a going concern. Failure to comply with this covenant, if not waived, would result in an event of default under our Chesapeake revolving credit facility, the potential acceleration of outstanding debt thereunder and the potential foreclosure on the collateral securing such debt, and could cause a cross-default under our other outstanding indebtedness. We are actively pursuing a variety of transactions and cost-cutting measures, including but not limited to, reducing corporate discretionary expenditures, refinancing transactions by us or our subsidiaries, capital exchange transactions, asset divestitures, reductions in capital expenditures by approximately 30% in 2020 and operational efficiencies, which we believe have the potential to positively impact our ability to comply with our leverage ratio covenant. There can be no assurance that such refinancing transactions, capital exchange transactions or asset divestitures will be available to us on acceptable terms or at all, or that such transactions, reductions in capital expenditures or other measures will be sufficient to alleviate liquidity concerns. Other risks and uncertainties that could affect our liquidity include, but are not limited to, counterparty credit risk for our receivables, access to capital markets, regulatory risks and our ability to meet financial covenants in our financing agreements.

Based on our cash balance, forecasted cash flows from operating activities and availability under our revolving credit facilities, we expect to be able to fund our planned capital expenditures, meet our debt service requirements and fund our other commitments and obligations for the next 12 months, subject to our ability to comply with our financial covenants.

As of September 30, 2019 and December 31, 2018, we had a cash balance of $14 million and $4 million, respectively. As of September 30, 2019 and December 31, 2018, we had a net working capital deficit of $945 million and $1.289 billion, respectively. As of September 30, 2019 and December 31, 2018, our working capital deficit included $208 million and $380 million, respectively, of debt due in the next 12 months. As of September 30, 2019, we had $1.443 billion of borrowing capacity available under our Chesapeake revolving credit facility, with outstanding borrowings of $1.504 billion and $53 million utilized for various letters of credit. In addition, as of September 30, 2019, we had $400 million of borrowing capacity available under our BVL revolving credit facility with outstanding borrowings of $900 million. See Note 6 of the notes to our condensed consolidated financial statements included in Item 1 of Part I of this report for further discussion of our debt obligations, including principal and carrying amounts of our notes.

We closely monitor the amounts and timing of our sources and uses of funds, particularly as they affect our ability to maintain compliance with the financial covenants of our revolving credit facilities. Furthermore, our ability to generate operating cash flow in the current commodity price environment, sell assets, access capital markets or take any other action to improve our liquidity and manage our debt is subject to the risks discussed above and the other risks and uncertainties that exist in our industry, some of which we may not be able to anticipate or control at this time.

Derivative and Hedging Activities

Our results of operations and cash flows are impacted by changes in market prices for oil, natural gas and NGL. To mitigate a portion of our exposure to adverse market price changes, we have entered into various derivative instruments. Our oil, natural gas and NGL derivative activities, when combined with our sales of oil, natural gas and NGL, allow us to better predict the total revenue we expect to receive.

We utilize various oil, natural gas and NGL derivative instruments to protect a portion of our cash flow against downside risk. As of October 31, 2019, including October and November derivative contracts that have settled, approximately 80% of our remaining forecasted oil, natural gas and NGL production revenue was hedged, including 74% and 75% of our remaining forecasted 2019 oil and natural gas production at average prices of $59.34 per barrel and $2.83 per mcf, respectively.

Oil Derivatives[a]

Year	Type of Derivative Instrument	Notional Volume (mmbbls)	Average NYMEX Price
2019	Swaps	7	$60.24
2019	Two-way collars	1	$58.00/$67.75
2019	Basis protection swaps	2	$5.67
2019	Puts	1	$54.43
2020	Swaps	15	$58.60
2020	Two-way collars	2	$65.00/$83.25
2020	Call swaptions	2	$63.15
2020	Basis protection swaps	5	$2.45

Natural Gas Derivatives[a]

Year	Type of Derivative Instrument	Notional Volume (bcf)	Average NYMEX Price
2019	Swaps	118	$2.84
2019	Two-way collars	9	$2.75/$2.91
2019	Three-way collars	15	$2.50/$2.80/$3.10
2019	Calls	6	$12.00
2019	Basis protection swaps	29	($0.10)
2020	Swaps	265	$2.76
2020	Basis protection swaps	30	$0.08
2020	Call swaptions	106	$2.77
2020	Calls	22	$12.00
2021	Call swaptions	15	$2.80
2022	Call swaptions	15	$2.80

(a) Includes amounts settled in October and November 2019.

See Note 14 of the notes to our condensed consolidated financial statements included in Item 1 of Part I of this report for further discussion of derivatives and hedging activities.

Debt

We are committed to reducing total leverage to achieve long-term net debt/EBITDAX of 2x. To accomplish this goal, we intend to allocate our capital expenditures to projects we believe offer the highest return and value regardless of the commodity price environment, to deploy leading drilling and completion technology throughout our portfolio, and to take advantage of acquisition and divestiture opportunities to strengthen our cost structure and our portfolio. Increasing our margins means not only increasing our absolute level of cash flows from operations, but also increasing our cash flows from operations generated per barrel of oil equivalent production. We continue to seek opportunities to reduce cash costs (production, gathering, processing and transportation and general and administrative), improve our production volumes from existing wells, and achieve additional operating and capital efficiencies with a focus on growing our oil volumes.

We may continue to use a combination of cash, borrowings and issuances of our common stock or other securities and the proceeds from asset sales to retire our outstanding debt and/or preferred stock through privately negotiated transactions, open market repurchases, redemptions, exchanges, tender offers or otherwise, but we are under no obligation to do so.

Chesapeake Revolving Credit Facility

The Chesapeake revolving credit facility is currently subject to a $3.0 billion borrowing base that matures in September 2023. As of September 30, 2019, we had $1.443 billion of borrowing capacity available under our revolving credit facility. Our next borrowing base redetermination is scheduled for the second quarter of 2020. As of September 30, 2019, we had outstanding borrowings of $1.504 billion under the revolving credit facility and had used $53 million of the revolving credit facility for various letters of credit. Borrowings under the facility bear interest at a variable rate. See Note 6 of the notes to our condensed consolidated financial statements included in Item 1 of this report for further discussion of the terms of the Chesapeake revolving credit facility. As of September 30, 2019, we were in compliance with all applicable financial covenants under the credit agreement. Our total leverage ratio was approximately 3.88 to 1.00, our first lien secured leverage ratio was approximately 0.74 to 1.00 and our interest coverage ratio was approximately 3.55 to 1.00.

Fluctuations in oil and natural gas prices have a material impact on our financial position, results of operations, cash flows and quantities of oil, natural gas and NGL reserves that may be economically produced. Historically, oil and natural gas prices have been volatile, and may be subject to wide fluctuations in the future. If continued depressed prices persist, combined with the scheduled reductions in the leverage ratio covenant, our ability to comply with the leverage ratio covenant during the next 12 months will be adversely affected which raises substantial doubt about our ability to continue as a going concern. Failure to comply with this covenant, if not waived, would result in an event of default under our Chesapeake revolving credit facility, the potential acceleration of outstanding debt thereunder and the potential foreclosure on the collateral securing such debt, and could cause a cross-default under our other outstanding indebtedness. We are actively pursuing with support from the Board of Directors a variety of transactions and cost-cutting measures, including but not limited to, reduction in corporate discretionary expenditures, refinancing transactions by us or our subsidiaries, capital exchange transactions, asset divestitures, reductions in capital expenditures by approximately 30% in 2020 and operational efficiencies. We believe it is probable that these measures, as we continue to implement them, will enable us to comply with our leverage ratio covenant.

BVL Revolving Credit Facility

The BVL revolving credit facility is currently subject to a $1.3 billion borrowing base that matures in December 2021. The scheduled borrowing base redetermination for the fourth quarter of 2019 is ongoing, and there can be no assurance that the borrowing base will remain at $1.3 billion. As of September 30, 2019, we had $400 million of borrowing capacity available under the BVL revolving credit facility, with outstanding borrowings of $900 million. Borrowings under the facility bear interest at a variable rate. See Note 6 of the notes to our condensed consolidated financial statements included in Item 1 of this report for further discussion of the terms of the BVL revolving credit facility. As of September 30, 2019, we were in compliance with all applicable financial covenants under the credit agreement. Our ratio of net debt to EBITDAX was 2.97 to 1.00 and our ratio of current assets to current liabilities was 2.23 to 1.00 as of September 30, 2019.

Contractual Obligations and Off-Balance Sheet Arrangements

From time to time, we enter into arrangements and transactions that can give rise to contractual obligations and off-balance sheet commitments. As of September 30, 2019, these arrangements and transactions included (i) certain operating lease agreements, (ii) open purchase commitments, (iii) open delivery commitments, (iv) open drilling commitments, (v) undrawn letters of credit, (vi) open gathering and transportation commitments, and (vii) various other commitments we enter into in the ordinary course of business that could result in future cash obligations.

Capital Expenditures

Our 2019 capital expenditures program is expected to generate greater capital efficiency than our 2018 program as we focus on expanding our margins through disciplined investing in the highest-return projects. Our forecasted 2019 capital expenditures, inclusive of capitalized interest, are $2.1 â€“ $2.3 billion compared to our 2018 capital spending level of $2.1 billion. We have significant control and flexibility over the timing and execution of our development plan, enabling us to reduce our capital spending as needed. Management continues to review operational plans for 2019 and beyond, and anticipates reducing capital expenditures in 2020 by approximately 30% to target free cash flow.

Credit Risk

Some of our counterparties have requested or required us to post collateral as financial assurance of our performance under certain contractual arrangements, such as gathering, processing, transportation and hedging agreements. As of October 31, 2019, we have received requests and posted approximately $71 million of collateral related to certain of our marketing and other contracts. We may be requested or required by other counterparties to post additional collateral in an aggregate amount of approximately $356 million, which may be in the form of additional letters of credit, cash or other acceptable collateral. However, we have substantial long-term business relationships with each of these counterparties, and we may be able to mitigate any collateral requests through ongoing business arrangements and by offsetting amounts that the counterparty owes us. Any posting of collateral consisting of cash or letters of credit reduces availability under our revolving credit facility and negatively impacts our liquidity.

Sources of Funds

The following table presents the sources of our cash and cash equivalents for the Current Period and the Prior Period. See Note 3 of the notes to our condensed consolidated financial statements included in Item 1 of Part I of this report for further discussion of divestitures of oil and natural gas assets.

	Nine Months Ended September 30,	
	2019	**2018**
	($ in millions)	
Cash provided by operating activities	$ 1,182	$ 1,395
Proceeds from divestitures of proved and unproved properties, net	110	395
Proceeds from revolving credit facility borrowings, net	1,310	â€”
Proceeds from issuance of senior notes, net	â€”	1,237
Proceeds from sales of other property and equipment, net	6	75
Proceeds from sales of investments	â€”	74
Total sources of cash and cash equivalents	$ 2,608	$ 3,176

Cash Flows from Operating Activities

Cash provided by operating activities was $1.182 billion in the Current Period compared to $1.395 billion in the Prior Period. The decrease in the Current Period is primarily due to the result of lower prices for the oil, natural gas and NGL we sold and lower volumes of natural gas and NGL sold offset by higher oil volumes sold. Additionally, cash provided by operating activities in the Current Period included one-time charges for transaction and severance costs of $72 million related to our acquisition of WildHorse. Cash flows from operations are largely affected by the same factors that affect our net income, excluding various non-cash items, such as depreciation, depletion and amortization, certain impairments, gains or losses on sales of assets, deferred income taxes and mark-to-market changes in our open derivative instruments. See further discussion below under *Results of Operations*.

Uses of Funds

The following table presents the uses of our cash and cash equivalents for the Current Period and the Prior Period:

	Nine Months Ended September 30,	
	2019	2018
	($ in millions)	
Oil and Natural Gas Expenditures:		
Drilling and completion costs	$ 1,640	$ 1,407
Acquisitions of proved and unproved properties	31	118
Total oil and natural gas expenditures	1,671	1,525
Other Uses of Cash and Cash Equivalents:		
Payments on revolving credit facility borrowings, net	â€”	136
Business combination, net	353	â€”
Additions to other property and equipment	27	11
Cash paid to purchase debt	457	1,285
Extinguishment of other financing	â€”	122
Dividends paid	69	69
Other	21	29
Total other uses of cash and cash equivalents	927	1,652
Total uses of cash and cash equivalents	$ 2,598	$ 3,177

Drilling and Completion Costs

Our drilling and completion costs increased in the Current Period compared to the Prior Period primarily as a result of increased drilling and completion activity in our oil plays. Our average operated rig count was 18 rigs and spud wells were 258 in the Current Period compared to an average operated rig count of 17 rigs and 240 spud wells in the Prior Period. We completed 290 operated wells in the Current Period compared to 242 in the Prior Period.

Business Combination - Acquisition of WildHorse

In the Current Period, we acquired WildHorse for approximately 717.4 million shares of our common stock and $381 million less $28 million of cash held by WildHorse as of the acquisition date. See Note 3 of the notes to our condensed consolidated financial statements included in Item 1 of Part I of this report for further discussion of the acquisition.

Cash Paid to Purchase Debt

In the Current Quarter, we repurchased approximately $82 million principal amount of the BVL Senior Notes for $76 million. In the Current Period, we repaid upon maturity $380 million principal amount of our Floating Rate Senior Notes due April 2019 with borrowings from our Chesapeake revolving credit facility. In the Prior Period, we used $1.285 billion of cash from the issuance of senior notes together with cash on hand and borrowings under our revolving credit facility to repay in full $1.233 billion principal amount of borrowings under our secured term loan due 2021 plus a call premium of $52 million.

Extinguishment of Other Financing

In the Prior Quarter, we repurchased previously conveyed overriding royalty interests (ORRIs) from CHK Utica, L.L.C. investors and extinguished our obligation to convey future ORRIs to the investors for combined consideration of $199 million. The cash paid was bifurcated between extinguishment of the obligation and acquisition of the ORRI.

Dividends

We paid dividends of $69 million on our preferred stock in both the Current Period and the Prior Period. We eliminated common stock dividends in the 2015 third quarter and do not anticipate paying any common stock dividends in the foreseeable future.

Results of Operations

Oil, Natural Gas and NGL Production and Average Sales Prices

	Three Months Ended September 30, 2019								
	Oil		Natural Gas		NGL		Total		
	mbbl per day	$/bbl	mmcf per day	$/mcf	mbbl per day	$/bbl	mboe per day	%	$/boe
Marcellus	â€”	â€”	928	1.85	â€”	â€”	154	32	11.11
Haynesville	â€”	â€”	694	2.03	â€”	â€”	116	24	12.17
Eagle Ford	51	60.13	161	2.13	16	14.24	94	20	38.62
Brazos Valley	36	58.23	62	1.70	6	8.84	53	11	43.07
Powder River Basin	20	54.17	86	1.96	5	11.49	39	8	33.09
Mid-Continent	8	55.24	57	1.63	5	12.06	22	5	26.26
Retained assets[a]	115	58.18	1,988	1.93	32	12.44	478	100	22.79
Divested assets	â€”	â€”	â€”	â€”	â€”	â€”	â€”	â€”	â€”
Total	115	58.18	1,989	1.93	32	12.44	478	100%	22.79

	Three Months Ended September 30, 2018								
	Oil		Natural Gas		NGL		Total		
	mbbl per day	$/bbl	mmcf per day	$/mcf	mbbl per day	$/bbl	mboe per day	%	$/boe
Marcellus	â€”	â€”	812	2.46	â€”	â€”	135	25	14.77
Haynesville	â€”	â€”	769	2.74	â€”	â€”	128	24	16.44
Eagle Ford	58	74.38	121	3.26	21	28.94	100	19	53.48
Powder River Basin	12	69.24	73	2.50	5	27.89	29	5	39.76
Mid-Continent	9	69.76	60	2.50	4	29.73	23	4	38.64
Retained assets[a]	79	73.07	1,835	2.63	30	28.86	415	77	27.66
Divested assets	10	67.02	497	2.91	29	29.34	122	23	24.38
Total	89	72.39	2,332	2.69	59	29.09	537	100%	26.92

	Nine Months Ended September 30, 2019								
	Oil		Natural Gas		NGL		Total		
	mbbl per day	$/bbl	mmcf per day	$/mcf	mbbl per day	$/bbl	mboe per day	%	$/boe
Marcellus	â€”	â€”	935	2.57	â€”	â€”	156	32	15.45
Haynesville	â€”	â€”	734	2.46	â€”	â€”	122	25	14.78
Eagle Ford	57	61.95	153	2.77	20	16.75	102	21	41.95
Brazos Valley[b]	31	60.38	47	1.80	5	8.89	44	9	45.75
Powder River Basin	18	54.26	86	2.51	5	15.66	38	8	34.15
Mid-Continent	9	55.57	58	2.16	5	17.05	23	5	29.25
Retained assets[a]	115	59.81	2,013	2.52	35	15.50	485	100	25.71
Divested assets	â€”	â€”	2	1.37	â€”	â€”	1	â€”	â€”
Total	115	59.78	2,015	2.51	35	15.50	486	100%	25.70

	Nine Months Ended September 30, 2018								
	Oil		Natural Gas		NGL		Total		
	mbbl per day	$/bbl	mmcf per day	$/mcf	mbbl per day	$/bbl	mboe per day	%	$/boe
Marcellus	â€”	â€”	830	2.85	â€”	â€”	138	26	17.14
Haynesville	â€”	â€”	810	2.72	â€”	â€”	135	25	16.34
Eagle Ford	60	70.35	134	3.26	19	26.93	101	19	50.88
Powder River Basin	9	67.02	59	2.48	4	27.86	23	4	38.28
Mid-Continent	9	66.27	61	2.52	4	26.62	24	4	36.78
Retained assets[(a)]	78	69.47	1,894	2.80	27	27.00	421	78	27.25
Divested assets	13	63.35	475	2.87	28	26.73	119	22	24.25
Total	91	68.63	2,369	2.82	55	26.87	540	100%	26.59

(a) Includes assets retained as of September 30, 2019.

(b) Average production per day since the date of the WildHorse acquisition on February 1, 2019, 242 days, was 35 mbbl, 53 mmcf and 6 mbbl for oil, natural gas and NGL, respectively.

Oil, Natural Gas and NGL Sales

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	($ in millions)					
Oil	$ 613	$ 594	3%	$ 1,879	$ 1,698	11%
Natural gas	353	578	(39)%	1,384	1,822	(24)%
NGL	37	159	(77)%	149	404	(63)%
Oil, natural gas and NGL sales	$ 1,003	$ 1,331	(25)%	$ 3,412	$ 3,924	(13)%

The decrease in the average price received per boe in the Current Quarter resulted in a $182 million decrease in revenues, and decreased sales volumes resulted in a $146 million decrease in revenues, for a total net decrease in revenues of $328 million. The decrease in the average price received per boe in the Current Period resulted in a $118 million decrease in revenues, and decreased sales volumes resulted in a $394 million decrease in revenues, for a total net decrease in revenues of $512 million.

Oil, Natural Gas and NGL Derivatives

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	($ in millions)			
Oil derivatives â€“ realized gains (losses)	$ 26	$ (112)	$ 18	$ (273)
Oil derivatives â€“ unrealized gains (losses)	98	12	(67)	(115)
Total gains (losses) on oil derivatives	124	(100)	(49)	(388)
Natural gas derivatives â€“ realized gains (losses)	83	(1)	71	83
Natural gas derivatives â€“ unrealized gains (losses)	(40)	(17)	119	(168)
Total gains (losses) on natural gas derivatives	43	(18)	190	(85)
NGL derivatives â€“ realized gains (losses)	â€”	(10)	â€”	(14)
NGL derivatives â€“ unrealized gains (losses)	â€”	(4)	â€”	(13)
Total gains (losses) on NGL derivatives	â€”	(14)	â€”	(27)
Total gains (losses) on oil, natural gas and NGL derivatives	$ 167	$ (132)	$ 141	$ (500)

See Note 14 of the notes to our condensed consolidated financial statements included in Item 1 of this report for a discussion of our derivative activity.

Marketing Revenues and Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	($ in millions)					
Marketing revenues	$ 889	$ 1,219	(27)%	$ 3,038	$ 3,738	(19)%
Marketing expenses	901	1,238	(27)%	3,071	3,798	(19)%
Marketing gross margin	$ (12)	$ (19)	37%	$ (33)	$ (60)	45%

Marketing revenues and expenses decreased in the Current Quarter and the Current Period primarily as a result of decreased oil, natural gas and NGL prices received in our marketing operations as well decreases from the termination of a marketing contract related to our Utica divestiture. Gross margin increased in the Current Quarter primarily due to improved margins related to non-equity transactions including decreases in transportation costs offset by losses on throughput transportation and inventory due to lower prices. Gross margin increased in the Current Period due to improved margins related to non-equity transactions including decreases in transportation costs as well as marketing services provided to acquires of our divested wells offset by losses on throughput transportation and inventory due to lower prices.

Other Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	($ in millions)					
Other revenue	$ 15	$ 16	(6)%	$ 45	$ 48	(6)%

Other revenue relates to the amortization of deferred VPP revenue. Our remaining deferred revenue balance of $78 million will be amortized on a straight-line basis through 2021. See Note 8 of the notes to our condensed consolidated financial statements included in Item 8 of this report for further discussion of our VPP.

Oil, Natural Gas and NGL Production Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
			($ in millions)			
Marcellus	9	8	13%	27	25	8%
Haynesville	12	15	(20)%	39	45	(13)%
Eagle Ford	45	42	7%	141	141	â€”%
Brazos Valley	25	â€”	n/a	62	â€”	n/a
Powder River Basin	20	12	67%	51	35	46%
Mid-Continent	24	27	(11)%	75	73	3%
Retained Assets[a]	135	104	30%	395	319	24%
Divested Assets	â€”	12	(100)%	(1)	50	(102)%
Total	135	116	16%	394	369	7%
Ad valorem tax	20	16	25%	59	48	23%
Total oil, natural gas and NGL production expenses	$ 155	$ 132	17%	$ 453	$ 417	9%
			($ per boe)			
Marcellus	$ 0.63	$ 0.66	(5)%	$ 0.63	$ 0.67	(6)%
Haynesville	$ 1.16	$ 1.28	(9)%	$ 1.16	$ 1.21	(4)%
Eagle Ford	$ 5.24	$ 4.52	16%	$ 5.08	$ 5.10	â€”%
Brazos Valley	$ 5.26	$ â€”	n/a	$ 5.17	$ â€”	n/a
Powder River Basin	$ 5.47	$ 4.40	24%	$ 4.90	$ 5.48	(11)%
Mid-Continent	$ 12.03	$ 12.97	(7)%	$ 11.66	$ 11.49	1%
Retained Assets[a]	$ 3.09	$ 2.72	14%	$ 2.97	$ 2.78	7%
Divested Assets	$ â€”	$ 1.11	(100)%	$ â€”	$ 1.52	(100)%
Total	$ 3.09	$ 2.36	31%	$ 2.97	$ 2.50	19%
Ad valorem tax	$ 0.45	$ 0.32	41%	$ 0.44	$ 0.33	33%
Total oil, natural gas and NGL production expenses per boe	$ 3.54	$ 2.68	32%	$ 3.41	$ 2.83	20%

(a) Includes assets retained as of September 30, 2019.

The absolute and per unit increase in the Current Quarter and the Current Period was the result of the acquisition of WildHorse in 2019, partially offset by the sale of certain oil and natural gas properties in 2018 and 2019.

Production expenses associated with VPP production volumes in the Current Quarter, the Prior Quarter, the Current Period and the Prior Period included approximately $4 million, $4 million, $11 million and $12 million, respectively. We anticipate a continued decrease in production expenses as the contractually scheduled volumes under our remaining VPP agreement decrease and operating efficiencies generally improve.

Oil, Natural Gas, and NGL Gathering, Processing and Transportation Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	($ in millions, except per unit)			
Oil, natural gas and NGL gathering, processing and transportation expenses	$ 270	$ 364	$ 815	$ 1,060
Oil ($ per bbl)	$ 3.53	$ 3.83	$ 3.12	$ 3.75
Natural gas ($ per mcf)	$ 1.19	$ 1.33	$ 1.21	$ 1.30
NGL ($ per bbl)	$ 5.19	$ 8.59	$ 5.27	$ 8.62
Total ($ per boe)	$ 6.12	$ 7.36	$ 6.14	$ 7.18

The absolute and per unit decrease in oil, natural gas and NGL gathering, processing and transportation expenses was primarily due to certain 2018 divestitures.

Production Taxes

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	($ in millions, except per unit)					
Production taxes	$ 35	$ 34	3%	$ 109	$ 91	20%
Production taxes per boe	$ 0.79	$ 0.69	14%	$ 0.82	$ 0.62	32%

The absolute and per unit increase in production taxes in the Current Quarter and the Current Period was primarily due to the addition of Texas assets through our acquisition of WildHorse and the divestiture of Ohio assets that were taxed at a lower rate.

Exploration Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	($ in millions, except per unit)					
Impairments of unproved properties	$ 1	$ 7	(86)%	$ 26	$ 60	(57)%
Dry hole expense	8	â€"	â€"%	8	21	(62)%
Geological and geophysical expense and other	8	15	(47)%	22	42	(48)%
Exploration expense	$ 17	$ 22	(23)%	$ 56	123	(54)%

General and Administrative Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	($ in millions, except per unit)					
Gross compensation and overhead	$ 150	$ 174	(14)%	$ 530	$ 563	(6)%
Allocated to production expenses	(33)	(36)	(8)%	(105)	(112)	(6)%
Allocated to marketing expenses	(3)	(5)	(40)%	(11)	(16)	(31)%
Allocated to exploration expenses	(2)	(3)	(33)%	(8)	(7)	14%
Allocated to sand mine expenses	(2)	â€”	n/a	(5)	â€”	n/a
Capitalized general and administrative expenses	(11)	(13)	(15)%	(37)	(42)	(12)%
Reimbursed from third parties	(33)	(36)	(8)%	(106)	(113)	(6)%
General and administrative expenses, net	$ 66	$ 81	(19)%	$ 258	$ 273	(5)%
General and administrative expenses, net per boe	$ 1.48	$ 1.63	(9)%	$ 1.94	$ 1.85	5%

Restructuring and Other Termination Costs

On January 30, 2018, we underwent a reduction in workforce impacting approximately 13% of employees across all functions, primarily on our Oklahoma City campus. In connection with the reduction, we incurred a total charge of approximately $38 million in the Prior Period for one-time termination benefits. The charge consisted of $33 million in salary expense and $5 million of other termination benefits.

Depreciation, Depletion and Amortization

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	($ in millions, except per unit)					
Depreciation, depletion and amortization	$ 573	$ 405	41%	$ 1,672	$ 1,335	25%
Depreciation, depletion and amortization per boe	$ 13.04	$ 8.20	59%	$ 12.60	$ 9.05	39%

The absolute and per unit increase in the Current Quarter and the Current Period is primarily the result of a higher depletion rate. The increase in depletion rate per boe primarily reflects our acquisition of WildHorse, coupled with our higher concentration of capital deployment in liquids-rich operating areas, which generally involve higher finding costs per boe relative to our gas-rich operating areas, as we focus on expanding our margins through disciplined investing in the highest-return projects.

Impairments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	($ in millions)			
Impairments due to lower forecasted commodity prices	$ 8	$ â€”	$ 8	$ 16
Impairments due to anticipated sale	â€”	53	â€”	55
Total impairments of oil and natural gas properties	8	53	8	71
Impairments of other fixed assets	1	5	3	51
Total impairments	$ 9	$ 58	$ 11	$ 122

Other Operating (Income) Expense

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	($ in millions)							
Other operating (income) expense	$	15	$	â€”	$	79	$	(1)

In the Current Period, we recorded $34 million of costs related to our acquisition of WildHorse, which consisted of consulting fees, financial advisory fees, legal fees and travel and lodging expenses. Additionally, we recorded $38 million of severance expense as a result of our acquisition of WildHorse. A majority of the WildHorse executives and employees were terminated. These executives and employees were entitled to severance benefits in accordance with existing employment agreements.

Interest Expense

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	($ in millions, except per unit)							
Interest expense on senior notes	$	147	$	146	$	444	$	434
Interest expense on term loan		â€”		29		â€”		87
Amortization of loan discount, issuance costs and other		7		8		19		18
Amortization of premium		â€”		(24)		â€”		(72)
Interest expense on revolving credit facilities		29		11		69		29
Realized gains on interest rate derivatives		(1)		(1)		(2)		(2)
Unrealized losses on interest rate derivatives		1		1		2		2
Capitalized interest		(6)		(5)		(19)		(14)
Total interest expense	$	177	$	165	$	513	$	482
Interest expense per boe[(a)]	$	3.99	$	3.32	$	3.85	$	3.26
Average senior notes borrowings	$	7,930	$	8,021	$	8,098	$	7,985
Average credit facilities borrowings	$	2,301	$	642	$	1,852	$	540
Average term loan borrowings	$	â€”	$	1,179	$	â€”	$	1,215

(a) Includes the effects of realized (gains) losses from interest rate derivatives, excludes the effects of unrealized (gains) losses from interest rate derivatives and is shown net of amounts capitalized.

The decrease in interest expense on the term loan is due to the repurchase of our term loan in the third quarter of 2018. The decrease in amortization of premium is due to the repurchase of our senior secured second lien notes in the fourth quarter of 2018. The increase in interest expense on revolving credit facilities is due to interest on the BVL revolving credit facility assumed in the WildHorse acquisition as well as increased borrowings to fund operations.

Gains (Losses) on Investments

In the Current Period and in connection with the acquisition of WildHorse, we obtained a 50% membership interest in JWH Midstream LLC (JWH). The carrying value of our investment in JWH, which was being accounted for as an equity method investment, was approximately $17 million as of March 31, 2019. In the Current Period, we paid approximately $7 million to terminate our involvement in the partnership. This removed us from any future obligations related to this joint venture and, therefore, we impaired the full value of the investment and recognized approximately $24 million of impairment expense in the Current Period.

In the Prior Period, we recognized $139 million of gains related to our equity investment in FTSI, including the sale of a portion of that investment. See Note 15 of the notes to our condensed consolidated financial statements included in Item 1 of this report for further discussion. In the Current Period, the hydraulic fracturing industry experienced challenging operating conditions resulting in the current fair value of our investment in FTSI to fall below book value at the end of the Current Quarter. Given the average NYSE closing price for FTSI shares in the Current Quarter exceeded our carrying value per share and more often than not the closing price was greater than our carrying value per share, we have not assessed the reduction in fair value of our investment in FTSI to be other-than-temporary. We will continue to monitor the hydraulic fracturing industry, FTSI operating results and FTSI share price for indications that the reduction in fair value is other-than-temporary, which could result in an impairment of our investment in FTSI.

Gains (Losses) on Purchases or Exchanges of Debt

In the Current Quarter, we privately negotiated exchanges of approximately $507 million principal amount of our outstanding senior notes for 235,563,519 shares of common stock and $186 million principal amount of our outstanding convertible senior notes for 73,389,094 shares of common stock. We recorded an aggregate net gain of approximately $64 million associated with the exchanges. Also in the Current Quarter, we repurchased approximately $82 million principal amount of the BVL Senior Notes and recorded a $6 million gain.

Other Income

In the Current Period, we recognized $8 million of other income from the sale of seismic data licenses to third parties. In the Prior Period, we extinguished our obligation to convey future ORRIs to the CHK Utica L.L.C. investors and recognized a $61 million gain included in other income on our condensed consolidated statement of operations.

Income Tax Expense (Benefit)

We recorded a $1 million income tax benefit in the Current Quarter and a $315 million income tax benefit in the Current Period. We recorded a $1 million income tax expense in the Prior Quarter and an $8 million income tax benefit in the Prior Period. Our effective income tax rate was 1.6% for the Current Quarter and 105.4% for the Current Period. The rate for the Current Period is due to the partial release of the valuation allowance associated with our acquisition of WildHorse and a nominal amount of state income tax refunds resulting from the filing of amended state income tax returns reporting federal audit adjustments. The effective income tax rate was (0.7%) for the Prior Quarter and 2.1% for the Prior Period. Our effective tax rate can fluctuate as a result of the impact of various items, including state income taxes, permanent differences, tax law changes and adjustments to the valuation allowance. See Note 11 of the notes to our condensed consolidated financial statements included in Item 1 of Part I of this report for a discussion of income taxes.

Forward-Looking Statements

This report includes â€œforward-looking statementsâ€ within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward-looking statements include our current expectations or forecasts of future events, including matters relating to our ability to meet debt service requirements, cost-cutting measures, reductions in expenditures, proposed refinancing transactions, capital exchange transactions, asset divestitures, reductions in capital expenditures, operational efficiencies, cost savings due to operational and capital efficiencies related to the WildHorse Merger and the other items discussed in the Introduction to Item 2 of this report. In this context, forward-looking statements often address our expected future business, financial performance and financial condition, and often contain words such as "expect," â€œcould,â€ â€œmay,â€ "anticipate," "intend," "plan," â€œability,â€ "believe," "seek," "see," "will," "would," â€œestimate,â€ â€œforecast,â€ "target," â€œguidance,â€ â€œoutlook,â€ â€œopportunityâ€ or â€œstrategy.â€

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

â€¢ our ability to comply with the covenants under our revolving credit facility and other indebtedness and the related impact on our ability to continue as a going concern;

â€¢the volatility of oil, natural gas and NGL prices;

â€¢ uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and projecting future rates of production and the amount and timing of development expenditures;

â€¢our ability to replace reserves and sustain production;

â€¢drilling and operating risks and resulting liabilities;

â€¢our ability to generate profits or achieve targeted results in drilling and well operations;

â€¢the limitations our level of indebtedness may have on our financial flexibility;

â€¢our inability to access the capital markets on favorable terms;

â€¢the availability of cash flows from operations and other funds to finance reserve replacement costs or satisfy our debt obligations;

â€¢adverse developments or losses from pending or future litigation and regulatory proceedings, including royalty claims;

â€¢effects of environmental protection laws and regulation on our business;

â€¢terrorist activities and/or cyber-attacks adversely impacting our operations;

â€¢ effects of acquisitions and dispositions, including our acquisition of WildHorse and our ability to realize related synergies and cost savings;

â€¢effects of purchase price adjustments and indemnity obligations; and

â€¢other factors that are described under *Risk Factors* in Item 1A of our 2018 Form 10-K and this Form 10-Q.

We caution you not to place undue reliance on the forward-looking statements contained in this report, which speak only as of the filing date, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures in this report and our other filings with the SEC that attempt to advise interested parties of the risks and factors that may affect our business.

Information About Us

Investors should note that we make available, free of charge on our website at chk.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also furnish quarterly, annual, and current reports for certain of our subsidiaries free of charge on our website at chk.com. We also post announcements, updates, events, investor information and presentations on our website in addition to copies of all recent news releases. We may use the Investors section of our website to communicate with investors. It is possible that the financial and other information posted there could be deemed to be material information. Documents and information on our website are not incorporated by reference herein.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, including Chesapeake, that file electronically with the SEC.

ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk*

Oil, Natural Gas and NGL Derivatives

Our results of operations and cash flows are impacted by changes in market prices for oil, natural gas and NGL. To mitigate a portion of our exposure to adverse price changes, we have entered into various derivative instruments. Our oil, natural gas and NGL derivative activities, when combined with our sales of oil, natural gas and NGL, allow us to predict with greater certainty the revenue we will receive. We believe our derivative instruments continue to be highly effective in achieving our risk management objectives.

Our general strategy for protecting short-term cash flows and attempting to mitigate exposure to adverse oil, natural gas and NGL price changes is to hedge into strengthening oil, natural gas and NGL futures markets when prices reach levels that management believes are unsustainable for the long term, have material downside risk in the short term or provide reasonable rates of return on our invested capital. Information we consider in forming an opinion about future prices includes general economic conditions, industrial output levels and expectations, producer breakeven cost structures, liquefied natural gas trends, oil and natural gas storage inventory levels, industry decline rates for base production and weather trends. Executive management is involved in our risk management activities and the Board of Directors reviews our derivative program at quarterly board meetings. We believe we have sufficient internal controls to prevent unauthorized trading.

We use derivative instruments to achieve our risk management objectives, including swaps, collars and options. All of these are described in more detail below. We typically use swaps and collars for a large portion of the oil and natural gas price risk we hedge. We have also sold calls, taking advantage of premiums associated with market price volatility.

We determine the notional volume potentially subject to derivative contracts by reviewing our overall estimated future production levels, which are derived from extensive examination of existing producing reserve estimates and estimates of likely production from new drilling. Production forecasts are updated at least monthly and adjusted if necessary to actual results and activity levels. We do not enter into derivative contracts for volumes in excess of our share of forecasted production, and if production estimates were lowered for future periods and derivative instruments are already executed for some volume above the new production forecasts, the positions would be reversed. The actual fixed price on our derivative instruments is derived from the reference NYMEX price, as reflected in current NYMEX trading. The pricing dates of our derivative contracts follow NYMEX futures. All of our commodity derivative instruments are net settled based on the difference between the fixed price as stated in the contract and the floating-price, resulting in a net amount due to or from the counterparty.

We review our derivative positions continuously and if future market conditions change and prices are at levels we believe could jeopardize the effectiveness of a position, we will mitigate this risk by either negotiating a cash settlement with our counterparty, restructuring the position or entering into a new trade that effectively reverses the current position. The factors we consider in closing or restructuring a position before the settlement date are identical to those we review when deciding to enter into the original derivative position. Gains or losses related to closed positions will be recognized in the month specified in the original contract.

We have determined the fair value of our derivative instruments utilizing established index prices, volatility curves and discount factors. These estimates are compared to counterparty valuations for reasonableness. Derivative transactions are also subject to the risk that counterparties will be unable to meet their obligations. This non-performance risk is considered in the valuation of our derivative instruments, but to date has not had a material impact on the values of our derivatives. Future risk related to counterparties not being able to meet their obligations has been partially mitigated under our commodity hedging arrangements that require counterparties to post collateral if their obligations to us are in excess of defined thresholds. The values we report in our financial statements are as of a point in time and subsequently change as these estimates are revised to reflect actual results, changes in market conditions and other factors. See Note 14 of the notes to our condensed consolidated financial statements included in Item 1 of Part I of this report for further discussion of the fair value measurements associated with our derivatives.

As of September 30, 2019, our oil, natural gas and NGL derivative instruments consisted of the following types of instruments:

â€¢ *Swaps*: We receive a fixed price and pay a floating market price to the counterparty for the hedged commodity. In exchange for higher fixed prices on certain of our swap trades, we may sell call options and call swaptions.

â€¢ *Options*: We occasionally sell and buy call and put options in exchange for a premium. At the time of settlement, if the market price exceeds the fixed price of the call option, we pay the counterparty the excess on sold call options and we receive the excess on bought call options. At the time of settlement, if the market price is lower than the fixed price of the put option, we receive the difference on bought put options and pay the counterparty the difference on sold put options. If the market price settles below the fixed price of the call option or above the fixed price of the put option, no payment is due from either party.

â€¢ *Call Swaptions*: We sell call swaptions to counterparties in exchange for a premium that allow the counterparty, on a specific date, to extend an existing fixed-price swap for a certain period of time or to increase the notional volumes of an existing fixed-price swap.

â€¢ *Collars*: These instruments contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, we receive the fixed price and pay the market price. If the market price is between the put and the call strike prices, no payments are due from either party. Three-way collars include the sale by us of an additional put option in exchange for a more favorable strike price on the call option. This eliminates the counterpartyâ€™s downside exposure below the second put option strike price.

â€¢ *Basis Protection Swaps*: These instruments are arrangements that guarantee a fixed price differential to NYMEX from a specified delivery point. We receive the fixed price differential and pay the floating market price differential to the counterparty for the hedged commodity.

As of September 30, 2019, we had the following open oil, natural gas and NGL derivative instruments:

	Volume	Weighted Average Price				Fair Value
		Fixed	Call	Put	Differential	Asset (Liability)
	(mmbbl)	($ per bbl)				($ in millions)
Oil:						
Swaps:						
Short-term	19	$ 59.17	$ â€”	$ â€”	$ â€”	$ 123
Long-term	3	$ 58.71	$ â€”	$ â€”	$ â€”	29
Collars:						
Short-term	3	$ â€”	$ 75.22	$ 61.37	$ â€”	26
Long-term	â€”	$ â€”	$ 83.25	$ 65.00	$ â€”	7
Call Swaptions:						
Short-term	2	$ 63.15	$ â€”	$ â€”	$ â€”	(1)
Put Options (bought):						
Short-term	1	$ â€”	$ â€”	$ 54.43	$ â€”	2
Deferred Premiums (Put Options):						
Short-term	â€”	$ â€”	$ â€”	$ â€”	$ â€”	(4)
Basis Protection Swaps:						
Short-term	2	$ â€”	$ â€”	$ â€”	$ 5.67	4
Total Oil						186
	(bcf)	($ per mcf)				
Natural Gas:						
Swaps:						
Short-term	316	$ 2.79	$ â€”	$ â€”	$ â€”	120
Long-term	67	$ 2.76	$ â€”	$ â€”	$ â€”	19
Three-Way Collars:						
Short-term	15	$ â€”	$ 3.10	$2.50/$2.80	$ â€”	3
Collars:						
Short-term	9	$ â€”	$ 2.91	$ 2.75	$ â€”	3
Call Options (sold):						
Short-term	22	$ â€”	$ 12.00	$ â€”	$ â€”	â€”
Long-term	6	$ â€”	$ 12.00	$ â€”	$ â€”	â€”
Call Swaptions:						
Short-term	79	$ 2.77	$ â€”	$ â€”	$ â€”	(3)
Long-term	57	$ 2.78	$ â€”	$ â€”	$ â€”	(4)
Basis Protection Swaps:						
Short-term	54	$ â€”	$ â€”	$ â€”	$ (0.01)	(1)
Total Natural Gas						137
Total Commodities						$ 323

In addition to the open derivative positions disclosed above, as of September 30, 2019, we had $40 million of net derivative losses related to settled contracts for future periods that will be recorded within oil, natural gas and NGL revenues as realized gains (losses) on derivatives once they are transferred from either accumulated other comprehensive income or unrealized gains (losses) on derivatives in the month specified in the original contract as noted below:

	September 30, 2019
	($ in millions)
Short-term	$ (22)
Long-term	(18)
Total	$ (40)

The table below reconciles the changes in fair value of our oil and natural gas derivatives during the Current Period. Of the $323 million fair value liability as of September 30, 2019, a $272 million asset relates to contracts maturing in the next 12 months and a $51 million asset relates to contracts maturing after 12 months. All open derivative instruments as of September 30, 2019 are expected to mature by December 31, 2020.

	September 30, 2019
	($ in millions)
Fair value of contracts outstanding, as of January 1, 2019	$ 282
Change in fair value of contracts	109
Contracts realized or otherwise settled	(68)
Fair value of contracts outstanding, as of September 30, 2019	$ 323

Interest Rate Risk

The table below presents principal cash flows and related weighted average interest rates by expected maturity dates, using the earliest demand repurchase date for contingent convertible senior notes.

	Years of Maturity						
	2019	2020	2021	2022	2023	Thereafter	Total
	($ in millions)						
Liabilities:							
Debt â€“ fixed rate	$ â€”	$ 301	$ 294	$ 338	$ 209	$ 6,186	$ 7,328
Average interest rate	â€”%	6.70%	5.80%	4.86%	5.75%	7.29%	7.05%
Debt â€“ variable rate	$ â€”	$ â€”	$ 900	$ â€”	$ 1,504	$ â€”	$ 2,404
Average interest rate	â€”%	â€”%	4.04%	â€”%	4.03%	â€”%	4.03%

Changes in interest rates affect the amount of interest we earn on our cash, cash equivalents and short-term investments and the interest rate we pay on borrowings under our revolving credit facility and our floating rate senior notes. All of our other indebtedness is fixed rate and, therefore, does not expose us to the risk of fluctuations in earnings or cash flows due to changes in market interest rates. However, changes in interest rates do affect the fair value of our fixed-rate debt.

In July 2017, the UK's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR as a benchmark by the end of 2021. At the present time, the BVL revolving credit facility has a stated maturity date in December 2021. Under the terms of the BVL revolving credit facility, the occurrence of certain events related to the phase-out of LIBOR would make Eurodollar borrowings unavailable and require BVL to borrow at the ABR rate or at an alternate rate of interest determined by the lenders under the BVL revolving credit facility as their cost of funds. We are currently evaluating the potential impact of the eventual phasing-out of LIBOR, including the amendment of the BVL revolving credit facility to implement a market-standard approach to the transition from LIBOR.

As of September 30, 2019, we had $3 million of net gains related to settled interest rate derivative contracts that will be recorded within interest expense as realized gains or losses once they are transferred from our senior note liability or within interest expense as unrealized gains or losses over the remaining six-year term of our related senior notes.

Realized and unrealized (gains) or losses from interest rate derivative transactions are reflected as adjustments to interest expense on the condensed consolidated statements of operations.

ITEM 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2019 that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

As previously disclosed, we acquired WildHorse on February 1, 2019 (see Note 3 in Part 1, Item 1 in this Quarterly Report on Form 10-Q) and are in the process of fully integrating its operations into our overall system of internal control over financial reporting. As permitted by U.S. Securities and Exchange Commission rules and regulations, we have not yet included WildHorse in our assessment of the effectiveness of our internal control over financial reporting.

There were no other changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. *Legal Proceedings*

There have been no material developments in previously reported legal or environmental proceedings. For a description of other legal and regulatory proceedings affecting us, see Item 3 in our 2018 Form 10-K.

ITEM 1A. *Risk Factors*

Our business has many risks. Factors that could materially adversely affect our business, financial condition, operating results or liquidity and the trading price of our common stock, preferred stock or senior notes are described under â€œRisk Factorsâ€ in Item 1A of our 2018 Form 10-K and our 10-Q for the three months ended March 31, 2019. This information should be considered carefully, together with other information in this report and other reports and materials we file with the SEC.

Restrictive covenants in certain of our debt agreements could limit our growth and our ability to finance our operations, fund our capital needs, respond to changing conditions and engage in other business activities that may be in our best interests.

Our debt agreements impose operating and financial restrictions on us. These restrictions limit our ability and that of our restricted subsidiaries to, among other things:

â€¢incur additional indebtedness;

â€¢make investments or loans;

â€¢create liens;

â€¢consummate mergers and similar fundamental changes;

â€¢make restricted payments;

â€¢make investments in unrestricted subsidiaries;

â€¢enter into transactions with affiliates; and

â€¢use the proceeds of asset sales.

We may be prevented from taking advantage of business opportunities that arise because of the limitations imposed on us by the restrictive covenants under certain of our debt agreements. The restrictions contained in the covenants could:

â€¢ limit our ability to plan for, or react to, market conditions, to meet capital needs or otherwise to restrict our activities or business plan; and

â€¢adversely affect our ability to finance our operations, enter into acquisitions or divestitures to engage in other business activities that would be in our interest.

Also, our credit facilities require us to maintain compliance with specified financial ratios and satisfy certain financial condition tests. Our ability to comply with these ratios and financial condition tests may be affected by events beyond our control and, as a result, we may be unable to meet these ratios and financial condition tests. These financial ratio restrictions and financial condition tests could limit our ability to obtain future financings, make needed capital expenditures, withstand a continued downturn in our business or a downturn in the economy in general or otherwise conduct necessary corporate activities. Further declines in oil, NGL and natural gas prices, or a prolonged period of low oil, NGL and natural gas prices could eventually result in our failing to meet one or more of the financial covenants under our credit facilities, which could require us to refinance or amend such obligations resulting in the payment of consent fees or higher interest rates, or require us to raise additional capital at an inopportune time or on terms not favorable to us. Specifically, the leverage ratio required by the covenants in our revolving credit begins to decrease by 25 basis points each quarter beginning with the fiscal quarter ending December 31, 2019 until it reaches 4.00 to 1.00 for the fiscal quarter ending March 31, 2021 and each quarter thereafter. If depressed prices persist or decline throughout 2020, our ability to comply with the leverage ratio covenant under our revolving credit facility during the next 12 months will be adversely affected and may cause doubt about our ability to continue as a going concern.

The WildHorse revolving credit facility and the WildHorse Indenture constrain the ability of WildHorse and its subsidiaries to make distributions or otherwise provide funds to, or guarantee the obligations of, Chesapeake and its other subsidiaries. The provisions of the WildHorse revolving credit facility and the WildHorse Indenture require that all transactions between WildHorse and its subsidiaries, on the one hand, and Chesapeake and its other subsidiaries, on the other hand, be on an arm's-length basis.

A breach of any of these covenants or our inability to comply with the required financial ratios or financial condition tests could result in a default under our credit facilities that, if not cured or waived, could result in acceleration of all indebtedness outstanding thereunder and cross-default rights under our other debt. If that should occur, we may be unable to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us. In addition, in the event of an event of default under one of the credit facilities, the affected lenders could foreclose on the collateral securing such credit facility and require repayment of all borrowings outstanding thereunder. If the amounts outstanding under the credit facilities or any of our other indebtedness were to be accelerated, our assets may not be sufficient to repay in full the amounts owed to the lenders or to our other debt holders.

The issuance of our common stock to shareholders of WildHorse as well as other stock transactions could lead to a limitation on the utilization of our loss carryforwards to reduce future taxable income.

Our ability to utilize NOL carryforwards, disallowed interest carryforwards and possibly other tax attributes to reduce future taxable income and federal income tax is subject to various limitations under Section 382 of the Code. The utilization of such attributes may be subject to an annual limitation under Section 382 of the Code upon the occurrence of an Ownership Change. The annual limitation is generally equal to the product of (a) the fair market value of our equity multiplied by (b) the long-term tax-exempt rate in effect for the month in which an Ownership Change occurs. If we are in a net unrealized built-in gain position at the time of an Ownership Change, then the limitation is increased by recognized built-in gains occurring within a five year period following the Ownership Change, but only to the extent of the net unrealized built-in gain which existed at the time of the Ownership Change. However, the Proposed Regulations would, if finalized in their current form, limit the potential increases to the annual limitation amount for certain built-in gains existing at the time of an Ownership Change, thereby significantly reducing the ability to utilize tax attributes. If we are in a net unrealized built-in loss position at the time of an Ownership Change, then the limitation may apply to tax attributes other than just NOL carryforwards and disallowed interest carryforwards, such as depreciable basis of tangible equipment. Some states impose similar limitations on tax attribute utilization upon experiencing an Ownership Change.

We believe that, based on information currently available, neither the WildHorse Merger, the exchanges of our common stock for certain outstanding senior notes that occurred during the Current Quarter nor the exchange of our common stock for certain Cumulative Convertible Preferred Stock that also occurred during the Current Quarter resulted in an Ownership Change. Therefore, with the exception of the WildHorse NOL carryforwards and disallowed interest carryforwards acquired earlier this year, we do not believe we have a limitation on the ability to utilize our carryforwards and other tax attributes under Section 382 of the Code as of September 30, 2019. However, issuances, sales and/or exchanges of our stock (including, potentially, relatively small transactions and transactions beyond our control) occurring after September 30, 2019, taken together with other prior transactions with respect to our stock, could trigger an Ownership Change and therefore a limitation on our ability to utilize our carryforwards and other tax attributes. Furthermore, if such an Ownership Change were to occur and the Proposed Regulations are finalized in their current form, the severity of the limitation may worsen due to the inability to consider certain recognized built-in gains in the calculation of the annual limitation amount. Any such limitation could result in a significant portion of our NOL carryforwards expiring before we would be able to utilize them to reduce taxable income in future periods. Based on the foregoing, certain NOL carryforwards, disallowed interest carryforwards and other tax attributes may need to be written off or have a valuation allowance maintained against them which, in turn, may result in a material charge to income tax expense.

ITEM 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

The following table presents information about repurchases of our common stock during the quarter ended September 30, 2019:

Period	Total Number of Shares Purchased[(a)]	Average Price Paid Per Share[(a)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
				($ in millions)
July 1, 2019 through July 31, 2019	31,565	$ 1.98	â€”	$ â€”
August 1, 2019 through August 31, 2019	â€”	$ â€”	â€”	$ â€”
September 1, 2019 through September 30, 2019	â€”	$ â€”	â€”	$ â€”
Total	31,565	$ 1.98	â€”	

(a) Includes shares of common stock purchased on behalf of our deferred compensation plan.

ITEM 3. *Defaults Upon Senior Securities*

None.

ITEM 4. *Mine Safety Disclosures*

The information concerning mine safety violations and other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17CFR 229.104) is included in Exhibit 95.1 to this Quarterly Report on Form 10-Q.

ITEM 5. *Other Information*

Not applicable.

ITEM 6. ***Exhibits***

The exhibits listed below in the Index of Exhibits are filed, furnished or incorporated by reference pursuant to the requirements of Item 601 of Regulation S-K.

INDEX OF EXHIBITS

		Incorporated by Reference				
Exhibit Number	**Exhibit Description**	**Form**	**SEC File Number**	**Exhibit**	**Filing Date**	**Filed or Furnished Herewith**
3.1.1	Chesapeakeâ€™s Restated Certificate of Incorporation.	10-K	001-13726	3.1.1	2/27/2019	
3.1.2	Certificate of Designation of 5% Cumulative Convertible Preferred Stock (Series 2005B), as amended.	10-Q	001-13726	3.1.4	11/10/2008	
3.1.3	Certificate of Designation of 4.5% Cumulative Convertible Preferred Stock, as amended.	10-Q	001-13726	3.1.6	8/11/2008	
3.1.4	Certificate of Designation of 5.75% Cumulative Non-Voting Convertible Preferred Stock (Series A).	8-K	001-13726	3.2	5/20/2010	
3.1.5	Certificate of Designation of 5.75% Cumulative Non-Voting Convertible Preferred Stock, as amended.	10-Q	001-13726	3.1.5	8/9/2010	
3.2	Chesapeakeâ€™s Amended and Restated Bylaws.	8-K	001-13726	3.2	6/19/2014	
4.1	Indenture, dated as of February 1, 2017, by and among WildHorse Resource Development Corporation, the subsidiary guarantors named therein and U.S. Bank National Association, as Trustee.	8-K	001-37964	4.1	2/1/2017	
4.2	Fourth Supplemental Indenture, dated as of February 1, 2019 among Brazos Valley Longhorn, L.L.C., the Guarantors (as defined in the Indenture referred to therein) and U.S. Bank National Association.	8-K	001-37964	4.1	2/1/2019	
4.3	Third Supplemental Indenture, dated as of August 2, 2018 among Burleson Sand LLC, WildHorse Resource Development Corporation, the other subsidiary guarantors named therein and U.S. Bank National Association, as Trustee.	10-Q	001-37964	4.6	8/9/2018	
4.4	Second Supplemental Indenture, dated as of January 8, 2018 among Burleson Sand LLC, WildHorse Resource Development Corporation, the other subsidiary guarantors named therein and U.S. Bank National Association, as Trustee.	10-K	001-37964	4.6	3/12/2018	
4.5	First Supplemental Indenture, dated as of June 30, 2017, by and among WHR Eagle Ford LLC, WildHorse Resource Development Corporation, the other subsidiary guarantors named therein and U.S. Bank National Association, as Trustee.	10-Q	001-37964	4.6	8/10/2017	
4.6	Tenth Supplemental Indenture, dated as of April 3, 2019, to Indenture dated as of April 24, 2014 with respect to 8.00% Senior Notes due 2026.	8-K	001-13726	4.2	4/5/2019	
4.7	Registration Rights Agreement, dated as of April 3, 2019, among Chesapeake Energy Corporation, the subsidiary guarantors named therein and the dealer managers party thereto with respect to 8.00% Senior Notes due 2026.	8-K	001-13726	4.4	4/5/2019	
10.1	Securities Exchange Agreement, dated as of September 9, 2019, between Chesapeake Energy Corporation and Franklin Advisers, Inc..					X
31.1	Robert D. Lawler, President and Chief Executive Officer, Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

31.2	Domenic J. Dellâ€™Osso, Jr., Executive Vice President and Chief Financial Officer, Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1	Robert D. Lawler, President and Chief Executive Officer, Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2	Domenic J. Dellâ€™Osso, Jr., Executive Vice President and Chief Financial Officer, Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
95.1	Mine Safety Disclosure	X
101 INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X
101 SCH	Inline XBRL Taxonomy Extension Schema Document.	X
101 CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	X
101 DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	X
101 LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document.	X
101 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	X

â€ Management contract or compensatory plan or arrangement

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CHESAPEAKE ENERGY CORPORATION	
Date: November 5, 2019	By:	/s/ ROBERT D. LAWLER Robert D. Lawler President and Chief Executive Officer
Date: November 5, 2019	By:	/s/ DOMENIC J. DELLâ€™OSSO, JR. Domenic J. Dellâ€™Osso, Jr. Executive Vice President and Chief Financial Officer

Exhibit 10.1

CHESAPEAKE ENERGY CORPORATION

SECURITIES EXCHANGE AGREEMENT

September 9, 2019

Franklin Advisers, Inc., as investment manager (the â€œUndersignedâ€), for itself and on behalf of the funds or accounts listed on Exhibit A hereto (each, an â€œInvestorâ€) for whom the Undersigned holds contractual and investment authority in connection with the Transactions (as defined below), enters into this Exchange Agreement (the â€œAgreementâ€) with Chesapeake Energy Corporation, an Oklahoma corporation (the â€œIssuerâ€), as of the date first written above whereby the Investors will exchange the Exchanged Securities (as defined below) for shares of common stock, $0.01 par value, of the Issuer (the â€œCommon Stockâ€).

On and subject to the terms hereof, the parties hereto agree as follows:

ARTICLE I

EXCHANGE OF SECURITIES

Section 1.1 <u>Exchange of Securities</u>. Upon and subject to the terms set forth in this Agreement, at the Closing (as defined herein), the Undersigned hereby agrees to cause each Investor to deliver to the Issuer the principal amount of the Issuerâ€™s outstanding unsecured senior notes, convertible notes and preferred stock (the â€œOutstanding Securitiesâ€) specified on Exhibit A hereto under the heading â€œExchanged Securitiesâ€ (the â€œPrincipal Amountâ€), in exchange for the number of whole shares of Common Stock (the â€œSharesâ€) specified on Exhibit A. The Outstanding Securities delivered to the Issuer pursuant to the terms of this Agreement in exchange for Shares shall be herein referred to as the â€œExchanged Securities.â€ The transactions contemplated by this Agreement, including the issuance, delivery and acceptance of the Shares, the exchange and sale of the Exchanged Securities, and delivery of cash for accrued but unpaid interest and as set forth on Exhibit A, are collectively referred to herein as the â€œTransactions.â€

Section 1.2 <u>Closing</u>. The closing of the Transactions (the â€œClosingâ€) shall occur on September 11, 2019 or such other date as may be mutually agreed upon by the parties in writing (the â€œClosing Dateâ€). At the Closing, (a) each Investor shall deliver or cause to be delivered to the Issuer all right, title and interest in and to its Exchanged Securities as specified on Exhibit A hereto, free and clear of any mortgage, lien, pledge, charge, security interest, encumbrance, title retention agreement, option, equity or other adverse claim thereto (collectively, â€œLiensâ€), together with any documents of conveyance or transfer that the Issuer may deem reasonably necessary or desirable to transfer to and confirm in the Issuer all right, title and interest in and to the Exchanged Securities, free and clear of any Liens and (b) the Issuer shall deliver to each Investor the Shares; provided, that the parties acknowledge that the delivery of the Shares to the Investor may be delayed due to (i) procedures and mechanics within the system of The Depository Trust Company (â€œDTCâ€) or (ii) the policies or instructions of Computershare Trust Company, N.A., the transfer agent for the Common Stock (the â€œTransfer Agentâ€) and that such delay will not be a default under this Agreement so long as the Issuer is using its reasonable best efforts to effect the issuance of the Shares and as long as the Shares are delivered within five trading days of the Closing. In addition, at the Closing the Issuer shall deliver cash representing all accrued but unpaid interest and as set forth on Exhibit A, in respect of the Exchanged Securities up to but not including the Closing Date by wire transfer of immediately available funds in accordance with wire instructions delivered in writing to Issuer by each Investor prior to the Closing Date. The cancellation of the Exchanged Securities and the delivery of the Shares shall be effected via DWAC pursuant to the instructions to be provided by Deutsche Bank Trust Company Americas, the trustee of the Outstanding Securities (the â€œTrusteeâ€), and the Transfer Agent.

Section 1.3 Termination. This Agreement may be terminated at any time prior to the Closing with the mutual written consent of the Issuer and the Undersigned.

ARTICLE II

COVENANTS, REPRESENTATIONS AND WARRANTIES OF THE INVESTORS

Each Investor (and where applicable, the Undersigned) hereby covenants as follows, and makes the following representations and warranties, in each case severally but not jointly, each of which is and shall be true and correct on the date hereof and at the Closing, to the Issuer, and all such covenants, representations and warranties shall survive the Closing.

Section 2.1 Power and Authorization. Each Investor has been duly organized and is validly existing and in good standing, and has the power, authority and capacity to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the Transactions. If the Undersigned is executing this Agreement on behalf of any Investor, the Undersigned has all requisite discretionary and contractual authority to enter into this Agreement on behalf of, and bind, such investor. Exhibit A hereto is a true and correct list of the name of each Investor.

Section 2.2 Valid and Enforceable Agreement; No Violations. This Agreement has been duly executed and delivered by the Undersigned and constitutes a legal, valid and binding obligation of the Undersigned and each Investor, enforceable against the Undersigned and each Investor in accordance with its terms, except that such enforcement may be subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws affecting or relating to enforcement of creditorsâ€™ rights generally and general principles of equity, whether such enforceability is considered in a proceeding at law or in equity (collectively, the â€œEnforceability Exceptionsâ€). This Agreement and consummation of the Transactions will not violate, conflict with or result in a breach of or default under (i) the Undersignedâ€™s or the applicable Investorâ€™s organizational documents, (ii) any agreement or instrument to which the Undersigned or the applicable Investor is a party or by which the Undersigned or the applicable Investor or any of their respective assets are bound, or (iii) any laws, regulations or governmental or judicial decrees, injunctions or orders applicable to the Undersigned or the applicable Investor, except (in the case of clauses (ii) or (iii) above) where such violations, conflicts, breaches or defaults would not affect the Undersignedâ€™s or the applicable Investorâ€™s ability to consummate the Transactions in any material respect.

Section 2.3 Title to the Exchanged Securities. (a) Each Investor is the sole legal and beneficial owner of the Exchanged Securities set forth opposite its name on Exhibit A hereto; (b) each Investor has good, valid and marketable title to its Exchanged Securities, free and clear of any Liens (other than pledges or security interests that the Investor may have created in favor of a prime broker under and in accordance with its prime brokerage agreement with such broker); (c) each Investor has not, in whole or in part, except as described in the preceding clause (b), (i) assigned, transferred, hypothecated, pledged, exchanged or otherwise disposed of any of its Exchanged Securities or its rights in its Exchanged Securities or (ii) given any person or entity (other than the Undersigned) any transfer order, power of attorney or other authority of any nature whatsoever with respect to its Exchanged Notes; and (d) upon the applicable Investorâ€™s delivery of its Exchanged Securities to the Issuer pursuant to the Transactions, such Exchanged Securities shall be free and clear of all Liens created by the Investor or any other person acting for the Investor.

Section 2.4 Qualified Institutional Buyer or Non-U.S. Person. Each Investor is (a) a â€œqualified institutional buyerâ€ within the meaning of Rule 144A promulgated under the Securities Act of 1933, as amended (the â€œSecurities Actâ€), or (b) outside the United States and a person other than a â€œU.S. personâ€ within the meaning of Rule 902 under the Securities Act. Each Investor is acquiring the Shares solely for its own respective beneficial account, for investment purposes, and not with a view to, or for resale in connection with, any distribution of the Shares within the meaning of the Securities Act. The Investor is not acquiring the Shares as a nominee or agent or otherwise for any other person.

Section 2.5 No Affiliate, Related Party or 5% Stockholder Status. Each Investor is not, and has not been during the consecutive three month period preceding the date hereof, a director, officer or â€œaffiliateâ€ within the meaning of Rule 144 promulgated under the Securities Act (an â€œAffiliateâ€) of the Issuer. To its knowledge, the applicable Investor did not acquire any of the Exchanged Securities, directly or indirectly, from an Affiliate of the Issuer. Each Investor beneficially owns and will beneficially own as of the Closing Date (but without giving effect to the Transactions) (a) less than 5% of the outstanding shares of Common Stock of the Issuer and (b) less than 5% of the aggregate number of votes that may be cast by holders of those outstanding securities of the Issuer that entitle the holders thereof to vote generally on all matters submitted to the Issuerâ€™s stockholders for a vote. No Investor is a subsidiary, Affiliate or, to its knowledge, otherwise closely-related to any director or officer of the Issuer (each such director or officer, a â€œRelated Partyâ€). To its knowledge, no Related Party beneficially owns 5% or more of the outstanding voting equity, or votes entitled to be cast by the outstanding voting equity, of the applicable Investor.

Section 2.6 Adequate Information; No Reliance.

(a) Each Investor acknowledges and agrees that (a) such Investor has been furnished with all materials it considers relevant to making an investment decision to enter into the Transactions and has had the opportunity to review the information provided in Exhibit B hereto and the Issuerâ€™s filings with the Securities and Exchange Commission (the â€œSECâ€) under the Securities Exchange Act of 1934, as amended (the â€œExchange Actâ€), (b) such Investor has had a full opportunity to ask questions of the Issuer concerning the Issuer, its business, operations, financial performance, condition (financial or otherwise), cash flows, properties, plans and prospects and the terms and conditions of the Transactions, (c) such Investor has had the opportunity to consult with its accounting, tax, financial and legal advisors to be able to evaluate the risks involved in the Transactions and to make an informed investment decision with respect to such Transactions, (d) such Investor has evaluated the tax and other consequences of the Transactions and ownership of the Shares with its tax, accounting or legal advisors, including the consequences to the Investor of the Issuerâ€™s ownership of U.S. real property interests, (e) the Issuer is not acting as a fiduciary or financial or investment advisor to the Undersigned or any Investor in connection with the Transactions and (f) such Investor has not been induced by, and is not relying, and has not relied, upon, any statement, advice (whether accounting, tax, financial, legal or other), representation or warranty made by the Issuer or any of its Affiliates or representatives regarding the Transactions, except for (A) the reports filed (not furnished) by the Issuer with the SEC under the Exchange Act since January 1, 2018, and (B) the representations and warranties made by the Issuer in Article III of this Agreement. The Investor has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its prospective investment in the Shares; has the ability to bear the economic risks of its prospective investment and can afford the complete loss of such investment; and acknowledges that investment in the Shares involves a high degree of risk.

Section 2.7 No Brokers. No broker, investment banker, finder or other person has been retained by or authorized to act on behalf of the Investor in connection with the transactions contemplated hereby, and no commission or other remuneration has been paid or given directly or indirectly to, by or on behalf of the Investor in connection with or in order to solicit or facilitate the Transactions.

Section 2.8 ERISA. Either (a) the Existing Securities do not constitute assets of any (i) employee benefit plan that is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (â€œERISAâ€), (ii) plan, individual retirement account or other arrangement that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the â€œCodeâ€) or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, â€œSimilar Lawsâ€), or (iii) entity whose underlying assets are considered to include â€œplan assetsâ€ of any such plan, account or arrangement described in clauses (i) or (ii) (each, a â€œPlanâ€) or (b) the exchange of Existing Securities for Shares by the Investor will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

Section 2.9 HSR Act. Each Investorâ€™s acquisition of the Shares is exempt from the Notification and Reporting requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, including the rules and regulations promulgated thereunder (the â€œHSR Actâ€). Each Investor is (a) an â€œinstitutional investorâ€ within the meaning of the HSR Act, and (b) acquiring the Shares in the ordinary course of business and solely for the purpose of investment. Immediately after the acquisition of the Shares by each Investor, the â€œultimate parent entityâ€ as that term is defined in the HSR Act, of each Investor will hold fifteen percent or less of the issued and outstanding Common Stock of the Issuer. No exception to 16 CFR Â§802.64(b) shall apply to the acquisition of the Shares by any Investor.

ARTICLE III

COVENANTS, REPRESENTATIONS AND WARRANTIES OF THE ISSUER

The Issuer hereby covenants as follows, and makes the following representations and warranties, each of which is and shall be true and correct on the date hereof and at the Closing, to the Investors, and all such covenants, representations and warranties shall survive the Closing.

Section 3.1 Power and Authorization. The Issuer has been duly incorporated and is validly existing and in good standing as a corporation under the laws of the State of Oklahoma, and has the corporate power, authority and capacity to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the Transactions. No material consent, approval, order or authorization of, or material registration, declaration or filing with any governmental entity is required on the part of the Issuer in connection with the execution, delivery and performance by it of this Agreement and the consummation by the Issuer of the Transactions, except as may be required under any state or federal securities laws or that may be obtained after the Closing without penalty.

Section 3.2 Authorization of the Shares. When the Shares are delivered and paid for pursuant to this Agreement on the Closing Date, such Shares will have been duly authorized, validly issued, fully paid and nonassessable free and clear of any Liens. The aggregate number of Shares set forth in Exhibit A to be issued in exchange for the Exchanged Securities will represent less than 15% of the outstanding Common Stock of the Issuer immediately following the issuance of the Shares.

Section 3.3 Description of the Shares. The Shares will conform in all material respects to the respective statements relating thereto contained under â€œDescription of Capital Stockâ€ in Exhibit B hereto.

Section 3.4 No Violations. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Issuer and its subsidiaries, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Issuer or any of its subsidiaries is a party or by which the Issuer or any of its subsidiaries is bound or to which any of the property or assets of the Issuer or any of its subsidiaries is subject; (ii) result in any violation of the provisions of the charter or by-laws (or similar organizational documents) of the Issuer or any of its subsidiaries; or (iii) result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Issuer or any of its subsidiaries or any of their properties or assets, except (in the case of clauses (i) and (iii) above) where such violations, conflicts, breaches or defaults would not adversely affect the Issuerâ€™s business or its ability to consummate the Transactions in any material respect.

Section 3.5 No Commissions. No commission or other remuneration has been paid or given directly or indirectly by or on behalf of the Issuer in connection with or in order to solicit or facilitate the Transactions.

Section 3.6 Registration Requirements. Subject to the accuracy and completeness of each Investorâ€™s representations and warranties, and its compliance with the covenants, set forth in Article II hereof, the issuance of the Shares pursuant to the Transactions is exempt from the registration requirements of the Securities Act pursuant to Section 3(a)(9) thereof and the Shares will be issued without restriction on transfer under the Securities Act. On or before the date of issuance of the Shares, the Shares shall have been authorized for listing on the New York Stock Exchange. The Shares will be fungible in all respects with Issuerâ€™s existing shares of common stock and will not contain any restrictive legends.

Section 3.7 Disclosure. The Issuer has not provided to the Undersigned or the Investors (or any of their affiliates or advisers) separately and in the aggregate with any other transactions with the undersigned and/or the Investors since the time of the most recent public disclosure of exchange transactions by the Issuer, any material non-public information with respect to the Issuer and neither the fact nor terms of the Transactions contemplated hereby, separately and in the aggregate with any other transactions with the undersigned and/or the Investors since the time of the most recent public disclosure of exchange transactions by the Issuer, constitute such material non-public information, in each case within the meaning of the United States securities laws.

ARTICLE IV

MISCELLANEOUS

Section 4.1 Entire Agreement. This Agreement and any documents and agreements executed in connection with the Transactions embody the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersede all prior and contemporaneous oral or written agreements, representations, warranties, contracts, correspondence, conversations, memoranda and understandings between or among the parties or any of their agents, representatives or Affiliates relative to such subject matter, including, without limitation, any term sheets, emails or draft documents.

Section 4.2 Construction. References in the singular shall include the plural, and vice versa, unless the context otherwise requires. Headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meanings of the provisions hereof. Neither party, nor its respective counsel, shall be deemed the drafter of this Agreement for purposes of construing the provisions of this Agreement, and all language in all parts of this Agreement shall be construed in accordance with its fair meaning, and not strictly for or against either party.

Section 4.3 Governing Law. This Agreement shall in all respects be construed in accordance with and governed by the substantive laws of the State of New York, without reference to its choice of law rules that would require the application of the laws of another jurisdiction.

Section 4.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Any counterpart or other signature hereon delivered by facsimile or any standard form of telecommunication or e-mail shall be deemed for all purposes as constituting good and valid execution and delivery of this Agreement by such party.

Section 4.5 Tax Documentation. Each Investor has provided and attached hereto, or will make its best efforts to promptly provide no later than two business days prior to Closing, copies of whichever of the following is applicable to such Investor: (a) a properly completed and executed Internal Revenue Service (â€œIRSâ€) Form W-9, or (b) a properly completed and executed

IRS Form W-8BEN-E, IRS Form W-8BEN or other applicable IRS Form W-8 (including any IRS forms, documents or schedules required to be attached thereto); provided, however, that if an Investor fails to provide such forms prior to Closing with enough time for the Issuer to adequately review such forms then the Issuer may withhold on any cash payments to or for the benefit of such Investor at the applicable withholding rate.

Section 4.6 Confidentiality. Each of the Undersigned and each Investor represents that neither it nor any person acting on its behalf or pursuant to any understanding with it has disclosed, and covenants that neither it nor any person acting on its behalf will disclose, to a third party any information regarding the Transactions (other than to the Undersignedâ€™s or such Investorâ€™s employees, officers, directors, advisors, funds and accounts under management or affiliates involved in its evaluation and/or undertaking of the Transactions, who has or shall be informed of the confidential nature of the information and that such information is subject to a confidentiality agreement, and except as may be required by law or regulatory authority or judicial, legislative or administrative process). The Issuer covenants that it will not disclose the name or identity of the Undersigned or any Investor (other than to the Issuerâ€™s employees, officers, directors, advisors, or affiliates involved in its evaluation and/or undertaking of the Transactions who shall be informed of the confidential nature of the information and that such information is subject to a confidentiality agreement and except as may be required by law or regulatory authority or judicial, legislative or administrative process). Each party hereto acknowledges that neither the Undersigned nor the Investors have undertaken any obligation not to transact in the securities of the Issuer prior to the date hereof and the Undersigned and the Investors disclaim any such obligation subsequent to the date hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed as of the date first above written.

CHESAPEAKE ENERGY CORPORATION

By: /s/ Domenic J. Dell'Osso
Name: Domenic J. Dell'Osso
Title: Executive Vice President and Chief Financial Officer

UNDERSIGNED:

FRANKLIN ADVISERS, INC., as investment manager, on behalf of itself and the funds/accounts listed on Exhibit A

(in its capacities described in the first paragraph hereof)

By: /s/ Ed Perks
Name: Ed Perks
Title: CIO

EXHIBIT A

Investor Name	**Exchanged Securities** *(principal amount and series of Outstanding Securities to be exchanged for Shares)*	**Shares**	**Cash Payment for Accrued Interest**
Franklin Custodian Funds - Franklin Income Fund	107,710,000 CHK 4 7/8 04/15/22 CUSIP: 165167CN5	52,801,995	2,129,516.46
Franklin Custodian Funds - Franklin Income Fund	124,251,000 CHK 5 3/4 03/15/23 CUSIP: 165167CL9	58,810,413	3,492,833.67
Franklin Custodian Funds - Franklin Income Fund	145,775,000 CHK 5 1/2 09/15/26 CUSIP: 165167CY1	55,855,638	3,919,727.78
Franklin Custodian Funds - Franklin Income Fund	150,000,000 CHK 8 06/15/27 CUSIP: 165167CZ8	64,236,209	2,866,666.67
Franklin Custodian Funds - Franklin Income Fund	40,000 CHK 5 3/4 PERP CUSIP: CHKVP	10,367,950	
Franklin Templeton Variable Insurance Products Trust - Franklin Income VIP Fund	5,000,000 CHK 4 7/8 04/15/22 CUSIP: 165167CN5	2,451,118	98,854.17
Franklin Templeton Variable Insurance Products Trust - Franklin Income VIP Fund	5,000,000 CHK 5 3/4 03/15/23 CUSIP: 165167CL9	2,366,597	140,555.56
Franklin Templeton Variable Insurance Products Trust - Franklin Income VIP Fund	10,000,000 CHK 5 1/2 09/15/26 CUSIP: 165167CY1	3,831,634	268,888.89

<u>EXHIBIT B</u>

DESCRIPTION OF CAPITAL STOCK

See attachment.

DESCRIPTION OF CAPITAL STOCK

Set forth below is a description of the material terms of our capital stock. The following description is only a summary and is qualified by reference to our certificate of incorporation (including our certificates of designation) and bylaws. Copies of our certificate of incorporation (including our certificates of designation) and bylaws are available from us upon request. These documents have also been filed with the SEC.

Authorized Capital Stock

Our authorized capital stock consists of 3,000,000,000 shares of common stock, par value $0.01 per share, and 20,000,000 shares of preferred stock, par value $0.01 per share.

Common Stock

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Subject to preferences that may be applicable to any outstanding preferred stock, holders of our common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available for dividends. In the event of our liquidation or dissolution, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any outstanding preferred stock.

Holders of our common stock have no preemptive rights and have no rights to convert their common stock into any other securities.

Preferred Stock

Our board of directors has the authority, without further shareholder approval, to issue shares of preferred stock from time to time in one or more series, with such voting powers or without voting powers, and with such designations, powers, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions, as shall be set forth in the resolutions providing therefor. As of June 30, 2019, our authorized preferred stock consisted of shares that are:

â€¢ unissued and undesignated as to series; and

â€¢ issued and designated as 5.75% cumulative convertible preferred stock, 5.75% cumulative convertible preferred stock (series A), 5.00% cumulative convertible preferred stock (series 2005B) and 4.50% cumulative convertible preferred stock.

While providing desirable flexibility for possible acquisitions and other corporate purposes, and eliminating delays associated with a shareholder vote on specific issuances, the issuance of preferred stock could adversely affect the voting power of holders of common stock, as well as dividend and liquidation payments on both common and preferred stock. It also could have the effect of delaying, deferring or preventing a change in control.

Anti-Takeover Provisions

Our certificate of incorporation and bylaws and the Oklahoma General Corporation Act include a number of provisions which may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions could delay or prevent entirely a merger or acquisition that our shareholders consider favorable. These provisions may also discourage acquisition proposals or have the effect of delaying or preventing entirely a change in control, which could harm our stock price. Following is a description of the anti-takeover effects of certain provisions of our certificate of incorporation and of our bylaws.

Oklahoma Business Combination Statute

Section 1090.3 of the Oklahoma General Corporation Act prevents an Oklahoma corporation from engaging in a â€œbusiness combinationâ€ with an interested shareholder for three years following the date the person became an interested shareholder, unless:

â€¢ prior to the date the person became an interested shareholder, the board of directors of the corporation approved the business combination or transaction in which the person became an interested shareholder;

â€¢ upon consummation of the transaction that resulted in the person becoming an interested shareholder, the interested shareholder owned stock having at least 85% of all voting power of the corporation at the time the transaction commenced, excluding for purposes of determining the outstanding voting stock, but not the outstanding voting stock owned by the interested shareholder, stock held by directors who are also officers of the corporation and stock held by certain employee stock plans; or

â€¢ on or subsequent to the time the person became an interested shareholder, the business combination is approved by the board of directors of the corporation and authorized at a meeting of shareholders, and not by written consent, by the affirmative vote of the holders of at least two-thirds of all voting power not attributable to shares owned by the interested shareholder.

The statute defines a â€œbusiness combinationâ€ to include:

â€¢ any merger or consolidation involving the corporation and an interested shareholder;

â€¢ any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with an interested shareholder of 10% or more of the assets of the corporation;

â€¢ subject to certain exceptions, any transaction which results in the issuance or transfer by the corporation of any stock of the corporation to an interested shareholder;

â€¢ any transaction involving the corporation which has the effect of increasing the proportionate share of the stock of any class or series or voting power of the corporation owned by the interested shareholder;

â€¢ the receipt by an interested shareholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation; or

â€¢ any share acquisition by the interested shareholder pursuant to Section 1090.1 of the Oklahoma General Corporation Act.

For purposes of Section 1090.3, the term â€œcorporationâ€ also includes the corporationâ€™s direct and indirect majority-owned subsidiaries.

In addition, Section 1090.3 defines an â€œinterested shareholder,â€ generally, as any person that owns stock having 15% or more of all voting power of the corporation, any person that is an affiliate or associate of the corporation and owned stock having 15% or more of all voting power of the corporation at any time within the three-year period prior to the time of determination of interested shareholder status, and any affiliate or associate of such person.

Stock Purchase Provisions

Our certificate of incorporation includes a provision which requires the affirmative vote of no less than two-thirds of the votes cast by the holders, voting together as a single class, of all then outstanding shares of capital stock, excluding the votes by an interested shareholder, to approve the purchase by us of any of our capital stock from the interested shareholder who has beneficially owned such capital stock for less than three years prior to such purchase, at a price in excess of fair market value, unless the purchase is either (1) made on the same terms offered to all holders of the same securities or (2) made on the open market and not the result of a privately negotiated transaction.

Calling of Special Meetings of Shareholders

Our bylaws provide that special meetings of our shareholders may be called only by the chairman of the board, the chief executive officer or by the president or secretary, at the request, in writing, of a majority of the directors then in office.

Advance Notice Requirements for Shareholder Proposals and Director Nominations

Our bylaws provide that shareholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of shareholders must provide timely notice of their proposal in writing to our corporate secretary. Nominations of persons for election to the board of directors of the corporation may only be made at an annual meeting of shareholders.

Generally, to be timely, a shareholderâ€™s notice (other than a notice submitted in order to include a shareholder nominee in our proxy materials) must be delivered to our secretary 90 to 120 days before the first anniversary of the previous yearâ€™s annual meeting. In order to include a shareholder nominee in our proxy materials, notice must generally be delivered to our secretary 120 to 150 days before the first anniversary of the previous yearâ€™s annual meeting. Our bylaws also specify requirements as to the form and content of a shareholderâ€™s notice and describe in detail the information that a shareholder must provide about itself and its nominees. These provisions may impede shareholdersâ€™ ability to bring matters before an annual meeting of shareholders or make nominations for directors at an annual meeting of shareholders.

Shareholder Action

Under Oklahoma law, except as otherwise provided by law or in our certificate of incorporation or bylaws, the approval by holders of a majority of the shares of common stock present in person or represented by proxy at a meeting at which a quorum is present and entitled to vote is sufficient to authorize, affirm, ratify or consent to a matter voted on by shareholders. Our bylaws provide that all questions submitted to shareholders (other than questions related to an uncontested director election on or after June 8, 2012) will be decided by a plurality of the votes cast, unless otherwise required by law, our certificate of incorporation, our bylaws, stock exchange requirements or any certificate of designation. The Oklahoma General Corporation Act requires the approval of the holders of a majority of the outstanding stock entitled to vote for certain extraordinary corporate transactions, such as a merger, sale of substantially all assets, dissolution or amendment of the certificate of incorporation. Our certificate of incorporation provides for a vote of the holders of a majority of the issued and outstanding stock having voting power, voting as a single class, to amend, repeal or adopt any provision inconsistent with the provisions of the certificate of incorporation limiting director liability or stock purchases by us, governing the board of directors or providing for indemnity for our directors, officers, employees or agents. The same vote is also required for shareholders to amend, repeal or adopt any provision of our bylaws.

Under Oklahoma law and our certificate of incorporation and bylaws, shareholders may take actions without the holding of a meeting by written consent or consents signed by the holders of a sufficient number of shares to approve the transaction had all of the outstanding shares of our capital stock entitled to vote thereon been present at a meeting. Our bylaws contain provisions for managing a written consent campaign by shareholders, including the provision that the company will hire an independent inspector of elections to review the validity of written consents and that action by written consent would not be declared effective until the independent inspector certifies that the minimum number of consents has been received. There is also a detailed provision for determining a record date for action by written consent.

Transfer Agent and Registrar

Computershare Trust Company, N.A. is the transfer agent and registrar for our common stock and preferred stock.

RISKS RELATED TO OUR COMMON STOCK

An investment in our capital stock involves a high degree of risk. Before you enter into this Agreement, you should carefully consider the following risk factors. If any of these risks were to occur, our business, financial condition or results of operations could be adversely affected. In that case, the trading price of our common stock could decline and you could lose all or part of your investment.

The market price of* our *common stock is volatile.

The trading price of our common stock and the price at which we may sell common stock in the future are subject to large fluctuations in response to any of the following:

â€¢ limited trading volume in our common stock;

â€¢ variations in operating results;

â€¢ our involvement in litigation;

â€¢ general U.S. or worldwide financial market conditions;

â€¢ conditions impacting the prices of oil and gas;

â€¢ announcements by us and our competitors;

â€¢ our liquidity and access to capital;

â€¢ our ability to raise additional funds;

â€¢ increases in our unsecured and secured indebtedness and issuances of additional equity;

â€¢ events impacting the energy industry;

â€¢ changes in government regulations; and

â€¢ other events that are beyond our control.

We do not anticipate paying* dividends *on our common stock in the near future.

In July 2015, our board of directors determined to eliminate quarterly cash dividends on our common stock. Accordingly, we do not intend to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain any earnings for the future operation and development of our business, including exploration, development and acquisition activities. Any future dividend payments will require approval by the board of directors and will be restricted by the terms of our debt agreements.

Certain anti-takeover provisions may affect your rights as* a *shareholder.

Our certificate of incorporation authorizes our board of directors to set the terms of and issue preferred stock without shareholder approval. Our board of directors could use the preferred stock as a means to delay, defer or prevent a takeover attempt that a shareholder might consider to be in our best interest. In addition, our revolving credit facility contains terms that may restrict our ability to enter into change of control transactions, including requirements to repay borrowings under our revolving credit facility on a change in control. These provisions, along with specified provisions of the Oklahoma General Corporation Act and our certificate of incorporation and bylaws, may discourage or impede transactions involving actual or potential changes in our control, including transactions that otherwise could involve payment of a premium over prevailing market prices to holders of our common stock.

Exhibit 31.1

CERTIFICATION

I, Robert D. Lawler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Chesapeake Energy Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2019

By: /s/ ROBERT D. LAWLER
Robert D. Lawler
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Domenic J. Dellâ€™Osso, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Chesapeake Energy Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2019	By:	/s/ DOMENIC J. DELLâ€™OSSO, JR.
		Domenic J. Dellâ€™Osso, Jr.
		Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Chesapeake Energy Corporation (the â€œCompanyâ€) on Form 10-Q for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the â€œReportâ€), I, Robert D. Lawler, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Â§ 1350, as adopted pursuant to Â§ 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 5, 2019

By: /s/ ROBERT D. LAWLER
Robert D. Lawler
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Chesapeake Energy Corporation (the â€œCompanyâ€) on Form 10-Q for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the â€œReportâ€), I, Domenic J. Dellâ€™Osso, Jr., Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Â§ 1350, as adopted pursuant to Â§ 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 5, 2019

By: /s/ DOMENIC J. DELLâ€™OSSO, JR.
Domenic J. Dellâ€™Osso, Jr.
Executive Vice President and
Chief Financial Officer

EXHIBIT 95.1

Mine Safety Disclosures

Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") and Item 104 of Regulation S-K (17 CFR 229.104) require certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the Federal Mine Safety and Health Act of 1977 (as amended by the Mine Improvement and New Emergency Response Act of 2006, the "Mine Act").

Burleson Sand LLC ("Burleson Sand") is a wholly owned subsidiary of Brazos Valley Longhorn, L.L.C. (successor in interest to WildHorse Resource Development Corporation) ("WildHorse"), which is a wholly owned subsidiary of Chesapeake Energy Corporation. On January 4, 2018, Burleson Sand acquired surface and sand rights on approximately 727 acres in Burleson County, Texas to construct and operate an in-field sand mine to support WildHorse's exploration and development operations. Burleson Sand began operations in September 2018 and is subject to regulation by the federal Mine Safety and Health Administration ("MSHA") under the Mine Act. The MSHA inspects mining facilities on a regular basis and issues citations and orders when it believes a violation has occurred under the Mine Act.

The MSHA, upon determination that a violation of the Mine Act has occurred, may issue a citation or an order which generally proposes civil penalties or fines upon the mine operator. Citations and orders may be appealed with the potential of reduced or dismissed penalties.

During the three-month period ended June 30, 2019, Burleson Sand did not receive any of the following from MSHA: (i) a citation for a violation of a mandatory health or safety standard that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard under Section 104 of the Mine Act; (ii) an order issued under Section 104(b) of the Mine Act; (iii) a citation or order for unwarrantable failure to comply with mandatory health or safety standards under Section 104(d) of the Mine Act; (iv) written notice of a flagrant violation under Section 110(b)(2) of the Mine Act; (v) an imminent danger order issued under Section 107(a) of the Mine Act; (vi) any proposed assessments under the Mine Act; (vii) written notice of a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under Section 104(e) of the Mine Act; or (viii) written notice of the potential to have such a pattern. Moreover, during the three-month period ended September 30, 2019, Burleson Sand did not experience a mining-related fatality or have any pending legal action before the Federal Mine Safety and Health Review Commission.