

CHESAPEAKE ENERGY CORP  
Form DEF 14A  
April 28, 2006  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**CHESAPEAKE ENERGY CORPORATION**

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(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

**Payment of Filing Fee (Check the appropriate box):**

**No fee required.**

**Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.**

1) **Title of each class of securities to which transaction applies:**

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2) **Aggregate number of securities to which transaction applies:**

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3) **Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):**

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4) **Proposed maximum aggregate value of transaction:**

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5) **Total fee paid:**

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**Fee paid previously with preliminary materials.**

**Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.**

1) **Amount Previously Paid:**

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2) **Form, Schedule or Registration Statement No.:**

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3) **Filing Party:**

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4) **Date Filed:**

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**Table of Contents**

**CHESAPEAKE ENERGY CORPORATION**

6100 North Western Avenue

Oklahoma City, Oklahoma 73118

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held On June 9, 2006**

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**TO OUR SHAREHOLDERS:**

The 2006 Annual Meeting of Shareholders of Chesapeake Energy Corporation, an Oklahoma corporation (the Company), will be held at The Waterford Marriott Hotel, Grand Ballroom A, 6300 Waterford Boulevard, Oklahoma City, Oklahoma, on Friday, June 9, 2006 at 10:00 a.m., local time, to consider and act upon the following matters:

1. To elect three directors to serve for three-year terms;
2. To approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock;
3. To approve an amendment to our Long Term Incentive Plan; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Holders of record of the Company's common stock at the close of business on April 17, 2006 are entitled to notice of and to vote at the meeting. A complete list of shareholders of record entitled to vote at the meeting will be available for examination by any shareholder at the meeting and at the Company's executive offices during ordinary business hours for a period of at least ten days prior to the meeting.

The accompanying proxy statement contains information regarding the matters to be considered at the meeting. The Board of Directors recommends a vote FOR the matters being voted upon.

**YOUR VOTE IS IMPORTANT. YOU MAY VOTE IN ANY ONE OF THE FOLLOWING WAYS:**

**Use the toll-free telephone number 1-800-690-6903 from the U.S. or Canada;**

**Use the Internet web site [www.proxyvote.com](http://www.proxyvote.com); or**

**Mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope.**

**SHAREHOLDERS WHO ATTEND THE MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON IF THEY DESIRE. IF YOU ARE UNABLE TO ATTEND, YOU MAY LISTEN TO A LIVE AUDIOCAST OF THE MEETING ON OUR**

WEBSITE AT [www.chkenergy.com](http://www.chkenergy.com).

BY ORDER OF THE BOARD OF DIRECTORS

Jennifer M. Grigsby

Secretary

Oklahoma City, Oklahoma

April 28, 2006

**Table of Contents**

**TABLE OF CONTENTS**

|  |    |
|--|----|
| <u>GENERAL INFORMATION</u>   | 2  |
| <u>Who Can Vote</u>  | 2  |
| <u>Establishing a Quorum</u>   | 2  |
| <u>How to Vote</u>   | 2  |
| <u>Votes Needed</u>  | 3  |
| <u>How Votes Can Be Revoked</u>  | 3  |
| <u>How Votes Are Counted</u>   | 3  |
| <u>When the Voting Results Will Be Announced</u>   | 3  |
| <u>Cost of Proxy Solicitation</u>  | 4  |
| <u>Electronic Access to Proxy Materials and Annual Report</u>                              | 4  |
| <u>Householding</u>  | 4  |
| <u>VOTING ITEM 1 ELECTION OF DIRECTORS</u>   | 4  |
| <u>VOTING ITEM 2 PROPOSAL TO AMEND CERTIFICATE OF INCORPORATION</u>                        | 7  |
| <u>VOTING ITEM 3 PROPOSAL TO AMEND LONG TERM INCENTIVE PLAN</u>                            | 8  |
| <u>Background on Stock Compensation at Chesapeake</u>                                      | 9  |
| <u>Plan Features</u>   | 10 |
| <u>Burn Rate and New Plan Benefits</u>   | 15 |
| <u>Equity Compensation Plan Information</u>  | 15 |
| <u>CORPORATE GOVERNANCE</u>  | 16 |
| <u>Code of Business Conduct and Ethics</u>   | 16 |
| <u>Communications to the Board</u>   | 16 |
| <u>Board Independence</u>  | 17 |
| <u>Executive Sessions</u>  | 17 |
| <u>THE BOARD OF DIRECTORS AND ITS COMMITTEES</u>   | 17 |
| <u>Compensation Committee</u>  | 17 |
| <u>Audit Committee</u>   | 17 |
| <u>Nominating and Corporate Governance Committee</u>                                       | 18 |
| <u>Directors' Compensation</u>   | 18 |
| <u>Audit Committee Report</u>  | 19 |
| <u>Nominating and Corporate Governance Committee Report</u>                                | 19 |
| <u>INFORMATION REGARDING OFFICERS</u>  | 21 |
| <u>Executive Officers</u>  | 21 |
| <u>Other Officers</u>  | 22 |
| <u>SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS</u>                      | 24 |
| <u>Security Ownership</u>  | 24 |
| <u>Section 16(a) Beneficial Ownership Reporting Compliance</u>                             | 25 |
| <u>EXECUTIVE COMPENSATION</u>  | 25 |
| <u>Report of the Compensation Committee on Executive Compensation</u>                      | 25 |
| <u>Summary Compensation Table</u>  | 29 |
| <u>Aggregated Option Exercises in 2005 and December 31, 2005 Option Values</u>             | 30 |
| <u>Employment Agreements, Termination of Employment and Change of Control Arrangements</u> | 30 |
| <u>Founder Well Participation Program</u>  | 33 |
| <u>COMPANY PERFORMANCE</u>   | 35 |
| <u>CERTAIN TRANSACTIONS AND RELATIONSHIPS</u>  | 37 |
| <u>INDEPENDENT ACCOUNTANTS</u>   | 38 |
| <u>Audit Fees</u>  | 38 |
| <u>Audit-Related Fees</u>  | 38 |
| <u>Tax Fees</u>  | 38 |
| <u>All Other Fees</u>  | 38 |
| <u>SHAREHOLDER PROPOSALS</u>   | 39 |
| <u>OTHER MATTERS</u>   | 39 |

**Table of Contents**

**CHESAPEAKE ENERGY CORPORATION**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held On June 9, 2006**

**GENERAL INFORMATION**

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Chesapeake Energy Corporation, an Oklahoma corporation (the "Company"), for use at the Annual Meeting of Shareholders of the Company to be held on the date, at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders, and any adjournment of the meeting.

This proxy statement, the accompanying form of proxy and our Annual Report for the year ended December 31, 2005 are being mailed on or about April 28, 2006 to shareholders of record as of April 17, 2006. Shareholders are referred to the Annual Report for information concerning the activities of the Company.

**Who Can Vote**

Only shareholders of record as of April 17, 2006, the record date for the meeting, are entitled to notice of and to vote at the meeting. At the close of business on April 17, 2006, there were 382,078,558 shares of our common stock outstanding and 376,480,776 shares entitled to vote at the meeting. Each outstanding share of common stock is entitled to one vote, except unvested shares of restricted stock issued to our directors and employees do not have voting rights.

**Establishing a Quorum**

The holders of a majority of the outstanding common stock, present in person or by proxy, will constitute a quorum for the transaction of business at the meeting.

**How to Vote**

Most shareholders can vote their shares one of three ways:

placing a toll-free telephone call from the U.S. or Canada to 1-800-690-6903;

using the Internet at [www.proxyvote.com](http://www.proxyvote.com); or

mailing the signed proxy card.

The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow you to vote your shares and to confirm that your instructions have been properly recorded. Please refer to your proxy card or the information forwarded by your bank, broker or other nominee to see which options are available to you.

If you are a Chesapeake employee and also a shareholder directly, or through the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan (the "Plan"), you will receive one proxy for all of your accounts that are registered in the same name. This single proxy, which will be sent to you electronically via email, will allow you to simultaneously vote all of your non-Plan shares as one block and will serve as your voting instruction for the trustee of the Plan to vote your Plan shares. **To allow sufficient time for the trustee to vote the Plan shares, your voting instructions must be received by 11:00 p.m. (CDT) on June 6, 2006.** Please note, however, that since you only vote one time for all shares you own, your vote on each proposal will be identical across all of your shares. This new voting and material delivery procedure will simplify your voting process when you hold shares in multiple accounts and will eliminate the extra sets of proxy materials, annual reports and other

shareholder communications that you may have received in prior years.



## **Table of Contents**

If you are a participant in the Nomac Drilling 401(k) Plan, you will receive our proxy card for all shares you own through the plan. That proxy card will serve as a voting instruction card for the trustee of the plan. If you do not vote your proxy, the trustee will not vote the plan shares credited to your plan account.

### **Votes Needed**

The election of the director nominees will be by plurality vote (that is, the three nominees receiving the greatest number of votes will be elected). However, you may not cast more than one vote per share for each nominee. The affirmative vote of holders of a majority of the outstanding shares of common stock will be required for approval of the amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock. The affirmative vote of holders of a majority of shares of common stock present at the meeting in person or by proxy will be required to approve the amendment to our Long Term Incentive Plan.

### **How Votes Can Be Revoked**

You may revoke your proxy at any time before it is voted by:

executing and submitting a revised proxy;

providing a written revocation to the Secretary of the Company; or

voting in person at the meeting.

In the absence of a revocation, shares represented by the proxies will be voted at the meeting. Your attendance at the meeting will not automatically revoke your proxy. If you do not hold your shares directly, you should follow the instructions provided by your broker, bank or nominee to revoke your previously voted proxy.

### **How Votes Are Counted**

Each proxy properly completed and returned to the Company in time for the meeting, and not revoked, will be voted in accordance with the instructions given. If there are no contrary instructions, proxies will be voted **FOR** the election of the nominees as directors, **FOR** the approval of the amendment to our Certificate of Incorporation and **FOR** the approval of the amendment to the Long Term Incentive Plan. The Company will appoint an inspector of election to tabulate all votes and to certify the results of all matters voted upon at the meeting.

It is the Company's policy (i) to count abstentions and broker non-votes for purposes of determining the presence of a quorum at the meeting; (ii) to treat abstentions as shares represented at the meeting and voting against a proposal and to disregard broker non-votes in determining results on proposals requiring a majority or higher vote; and (iii) to consider neither abstentions nor broker non-votes in determining results of plurality votes.

Under the rules of the New York Stock Exchange, brokers who hold shares on behalf of their customers have the authority to vote on certain proposals when they have not received instructions from beneficial owners. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner. Your broker has discretionary authority to vote your shares in the election of directors and on the proposal to approve the amendment to our Certificate of Incorporation. Your broker is not empowered to vote your shares on the proposal to approve the amendment to our Long Term Incentive Plan in the absence of specific instructions from you.

### **When the Voting Results Will Be Announced**

We will announce preliminary voting results at the meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of 2006.



## **Table of Contents**

### **Cost of Proxy Solicitation**

We will pay the cost of soliciting proxies. We have retained The Proxy Advisory Group, LLC to assist in the solicitation of proxies for a fee of \$7,500, plus out-of-pocket expenses. In addition, employees of the Company may solicit proxies by mail, personally, or by telephone, facsimile transmission or email communication. We will request banks and brokers or other similar agents or fiduciaries to transmit the proxy material to the beneficial owners for their voting instructions and will reimburse their expenses in so doing.

### **Electronic Access to Proxy Materials and Annual Report**

This proxy statement and our 2005 Annual Report are available on our website at [www.chkenergy.com](http://www.chkenergy.com). If you are interested in receiving all future shareholder communications electronically, including proxy statements and annual reports, please visit [www.icsdelivery.com/chk](http://www.icsdelivery.com/chk) and register for electronic distribution. Once you register, any time we distribute materials or communications to our shareholders, you will receive an email notification containing an internet address which will direct you to these documents. Once you have registered for electronic distribution, you will continue to receive all shareholder communications electronically until you change this election at [www.icsdelivery.com/chk](http://www.icsdelivery.com/chk). Electronic distribution saves the Company the cost of printing and mailing the documents to you, reduces the amount of mail you receive and is environmentally friendly by helping to conserve natural resources consumed in the printing process.

### **Householding**

Based on rules adopted by the Securities and Exchange Commission, certain shareholders who share the same last name and address will receive only one copy of the proxy materials. This procedure is called *householding* and is designed to reduce our printing and postage costs. If you hold your shares in street name and would like additional copies of the proxy materials, please contact your broker. If you are currently receiving multiple copies of the proxy materials and would like to request *householding*, please contact your broker as well.

The Company will begin *householding* for record holders 60 days after the distribution of this proxy statement. Please refer to the insert enclosed with your proxy materials that describes the *householding* process in more detail. If you do not wish to participate in *householding*, please make this election on your proxy card by checking *No* under *Householding Election*. If you do nothing, you will be deemed to have given your consent to participate and we will begin *householding* 60 days after the mailing of these proxy materials.

## **VOTING ITEM 1 ELECTION OF DIRECTORS**

Pursuant to provisions of the Company's Certificate of Incorporation and Bylaws, the Board of Directors has fixed the number of directors at eight, subject to the rights of the holders of our preferred stock to nominate and elect two additional directors on the occurrence of a voting rights triggering event as defined in the preferred stock certificates of designation. Our Certificate of Incorporation and Bylaws provide for three classes of directors serving staggered three-year terms, with each class to be as nearly equal in number as possible. The terms of three directors expire at the meeting.

The Board of Directors has nominated Breene M. Kerr and Charles T. Maxwell for re-election as directors. The Board of Directors has also nominated Richard K. Davidson for election as a director. Mr. Davidson was initially recommended to the Nominating and Corporate Governance Committee by Aubrey K. McClendon, our Chairman and Chief Executive Officer, and was appointed to the Board of Directors effective March 1, 2006. Mr. Davidson's nomination as a director fills the vacancy created by Shannon Self who chose not to stand for re-election as a director at the expiration of his term in June 2005. Upon election, Messrs. Kerr, Maxwell and Davidson will serve for terms expiring at the 2009 Annual Meeting of Shareholders and, in each case, until their successors are elected and qualified. Proxies cannot be voted for a greater number of persons than the number of nominees named. Other directors will continue in office until the expiration of their terms at the 2007 or 2008 Annual Meeting of Shareholders, as the case may be.

## **Table of Contents**

Tom L. Ward, co-founder of the Company and a director and the President and Chief Operating Officer since inception, resigned as a director, officer and employee of the Company on February 10, 2006. Mr. Ward agreed to serve as a consultant for six months following his resignation pursuant to an agreement with the Company described on page 32 under Employment Agreements, Termination of Employment and Change of Control Arrangements. Mr. Ward's position on the Board of Directors will remain unfilled until such time as a successor is appointed by the Board or elected by the shareholders. Because Mr. Ward held a management position with the Company and therefore was not independent, he did not serve on any of the standing committees of the Board.

## **THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS.**

It is the intention of the persons named in the enclosed form of proxy to vote such proxies for the election of the three nominees. The Board of Directors expects that each of the nominees will be available for election but, in the event that any of the nominees is not available, proxies received will be voted for substitute nominees to be designated by the Board or, in the event no such designation is made, proxies will be voted for a lesser number of nominees.

The following information is furnished for each person who is a director nominee or who is continuing to serve as a director of the Company after the meeting.

### **Nominees for Terms Expiring in 2009**

*Breene M. Kerr, 77*, has been a director of the Company since 1993. He is President of Brookside Company, Easton, Maryland. Mr. Kerr founded Kerr Consolidated, Inc. in 1969 and was the chief executive officer until 1996 when it was sold. Kerr Consolidated operated heavy duty truck dealerships in Oklahoma, a truck leasing firm and various real estate interests. In 1969, Mr. Kerr co-founded the Resource Analysis and Management Group and remained a senior partner until 1982. From 1967 to 1969, he was Vice President of Kerr-McGee Chemical Corporation. From 1951 through 1967, Mr. Kerr worked for Kerr-McGee Corporation as a geologist and land manager. Mr. Kerr has served as chairman of the Investment Committee for the Massachusetts Institute of Technology and is a life member of the Corporation (Board of Trustees) of that university. He served as a director of Kerr-McGee Corporation from 1957 to 1981 and was a member of its audit committee from 1973 to 1981. He was a director and audit committee member of Pan-American Properties from 1987 to 1990. Mr. Kerr currently is a trustee of the Brookings Institution in Washington, D.C. and the Woods Hole Oceanographic Institution in Woods Hole, Massachusetts, and has been an associate director since 1987 of Aven Gas & Oil, Inc., an oil and gas property management company located in Oklahoma City. Mr. Kerr graduated from the Massachusetts Institute of Technology in 1951.

*Charles T. Maxwell, 74*, has been a director of the Company since September 2002. Mr. Maxwell is a Senior Energy Analyst and has been with Weeden & Co., an institutional research and brokerage firm located in Greenwich, Connecticut, from 1999 to the present. Entering the oil and natural gas industry in 1957, Mr. Maxwell worked for what is now ExxonMobil for twelve years in the U.S., Europe, Middle East and Africa. In 1968, Mr. Maxwell joined C.J. Lawrence, an institutional research and brokerage firm, as an oil analyst and was ranked by *Institutional Investor* magazine as No. 1 in his field in 1972, 1974, 1977, and 1981 through 1986. He rose to the position of Managing Director of C. J. Lawrence/Morgan Grenfell and retired from the firm in 1997, several years later it was acquired by Deutsche Bank. Mr. Maxwell is a director of Daleco Resources Corporation (DLOV.OB), an oil and gas exploration and production company located in West Chester, Pennsylvania; Lescarden, Inc. (CAR.OB), a biotechnology company in New York; and American DG Energy Inc., a privately held provider of on-site utilities based in Waltham, Massachusetts. Mr. Maxwell graduated from Princeton University in 1953 and Oxford University in 1957.

*Richard K. Davidson, 64*, has been a member of our Board of Directors since March 2006. Mr. Davidson is currently Chairman of the Board of Directors of Union Pacific Corporation (NYSE: UNP). He started his railroad

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**Table of Contents**

career in 1960 with Missouri Pacific Railroad and held various positions of increasing authority before being named Vice President of Operations in 1976. In 1982, Union Pacific merged with the Missouri Pacific and Western Pacific railroads, and in 1986, Mr. Davidson was promoted to Vice President of Operations of the combined railroads. He was promoted to Executive Vice President in 1989 and became Chairman and Chief Executive Officer of Union Pacific Railroad in 1991. He was named Chairman and CEO of Union Pacific Corporation in 1997. Mr. Davidson is currently an alternate director of the Association of American Railroads, a member and past chairman of the President's National Infrastructure Advisory Council, a director and trustee of the Malcolm Baldrige National Quality Awards Foundation, and a member of the board of advisors of Thayer Capital Partners, a private equity investment firm. In addition, he is a member of the Horatio Alger Association of Distinguished Americans and serves on the U.S. Strategic Command Consultation Committee in Omaha, Nebraska. Mr. Davidson graduated from Washburn University in Topeka, Kansas in 1966 and has completed the Program for Management Development at Harvard University.

**Directors Whose Terms Expire in 2007**

*Frank A. Keating*, 62, has been a director of the Company since June 2003. Governor Keating has been the President and CEO of the American Council of Life Insurers, a large trade organization based in Washington, D.C., since January 2003. Governor Keating became a special agent in the Federal Bureau of Investigation in 1969 and then served as Assistant District Attorney in Tulsa County, Oklahoma. In 1972, Governor Keating was elected to the Oklahoma State House of Representatives and two years later was elected to the Oklahoma State Senate. In 1981 Governor Keating was appointed as the U.S. Attorney for the Northern District of Oklahoma and in 1985 he began seven years of service in the Ronald Reagan and George H.W. Bush administrations serving as Assistant Secretary of the Treasury, Associate Attorney General in the Justice Department and as General Counsel and Acting Deputy Secretary of the Department of Housing and Urban Development. In 1994, Governor Keating was elected as Oklahoma's 25<sup>th</sup> Governor and served two consecutive four-year terms. Governor Keating graduated from Georgetown University in 1966 and from the University of Oklahoma College of Law in 1969.

*Frederick B. Whittemore*, 75, has been a director of the Company since 1993. Mr. Whittemore has been an advisory director of Morgan Stanley since 1989 and was a managing director or partner of the predecessor firms of Morgan Stanley from 1967 to 1989. He was Vice-Chairman of the American Stock Exchange from 1982 to 1984. Mr. Whittemore is also a director of KOS Pharmaceuticals, Inc. (Nasdaq: KOSP), a pharmaceutical company in Miami, Florida. Mr. Whittemore graduated from Dartmouth College in 1953 and from the Amos Tuck School of Business Administration in 1954.

**Directors Whose Terms Expire in 2008**

*Donald L. Nickles*, 57, has been a member of our Board of Directors since January 2005. Senator Nickles is the founder and President of The Nickles Group, a consulting and business venture firm in Washington D.C. Senator Nickles was first elected to represent Oklahoma in the United States Senate in 1980 where he held numerous leadership positions including Assistant Republican Leader from 1996 to 2003 and Chairman of the Senate Budget Committee from 2003 to 2005. Senator Nickles also served on the Energy and Natural Resources Committee and the Finance Committee. Prior to his service in the U.S. Senate, Senator Nickles served in the Oklahoma State Senate from 1979 to 1980 and worked for Nickles Machine Corporation in Ponca City, Oklahoma becoming vice president and general manager. Senator Nickles is also a director of Valero Energy Corporation (NYSE:VLO), an independent oil refiner headquartered in San Antonio, Texas, and Fortress America Acquisition Corporation (FAACU.OB), an investment company which plans to invest in the homeland security industry. Senator Nickles served in the National Guard from 1970 to 1976 and graduated from Oklahoma State University in 1971.

*Aubrey K. McClendon*, 46, has served as Chairman of the Board, Chief Executive Officer and a director since co-founding the Company in 1989. From 1982 to 1989, Mr. McClendon was an independent producer of oil and gas in affiliation with Tom L. Ward. Mr. McClendon graduated from Duke University in 1981.

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**Table of Contents**

**VOTING ITEM 2 PROPOSAL TO AMEND CERTIFICATE OF INCORPORATION TO INCREASE AUTHORIZED COMMON STOCK**

The Board of Directors recommends that the shareholders authorize an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of common stock from 500,000,000 to 750,000,000 shares, par value \$.01 per share. The Board of Directors believes that the proposed increase in authorized shares of common stock is desirable to enhance the Company's flexibility in taking possible future actions, such as corporate mergers, acquisitions of assets, stock splits, stock dividends, equity compensation awards or other corporate purposes. The proposed amendment will allow the Company to accomplish these objectives quickly. The Board determines whether, when and on what terms to issue shares of common stock. Use of the additional shares proposed to be authorized will not require shareholder approval unless required under Oklahoma corporate law or by the rules of any national securities exchange on which the common stock is then listed. There are currently no plans or arrangements for use of the additional shares of authorized common stock.

The Company has historically issued common stock for the following three main purposes:

To finance the acquisition of oil and natural gas reserves and leasehold through both corporate and asset purchases;

To reduce the Company's fixed dividend obligations by replacing outstanding preferred stock that had previously been issued to finance acquisitions; and

To compensate, attract and retain our employees and directors through participation in our equity compensation plans.

Since our inception in 1989, our goal has been to create value for investors by building one of the largest onshore natural gas resource bases in the United States. In building our industry-leading positions in the Mid-Continent, South Texas, Texas Gulf Coast, Permian, Barnett Shale, Ark-La-Tex and Appalachian regions of the U.S. we have integrated an aggressive and technologically advanced drilling program with an active property consolidation program focused on corporate and property acquisitions of natural gas that offer high-quality, long-lived production and significant development and higher potential deep drilling opportunities. From January 1, 1998 through December 31, 2005, we have been one of the most active consolidators of onshore U.S. natural gas assets, having purchased approximately 5.9 tcf of proved reserves, at a total cost of approximately \$10.3 billion. Please refer to the Performance Data included elsewhere in this proxy statement for our common stock price performance over the past 5 and 12 years. In addition, based on our view that natural gas will be in a tight supply/demand relationship in the U.S. during at least the next few years because of the significant structural challenges to growing gas supply and the growing demand for this clean-burning, domestically-produced fuel, we believe our focused natural gas acquisition, exploitation and exploration strategy should provide substantial value-creating growth opportunities in the years ahead.

Currently the Company has 500,000,000 shares of authorized common stock, par value \$.01 per share. As of the Record Date, there were 387,398,682 shares of common stock issued, including treasury shares; 16,580,798 shares of common stock reserved for issuance upon the award of restricted stock or the exercise of options to purchase common stock under the Company's stock compensation plans for directors, employees and consultants; 50,701,133 shares of common stock reserved for issuance upon the conversion of outstanding shares of the Company's convertible preferred stock; and 17,660,619 shares of common stock reserved for issuance upon the conversion of the Company's outstanding 2.75% Contingent Convertible Senior Notes due 2035. Based on the number of outstanding and reserved shares of common stock described, the Company currently has approximately 33 million shares of common stock available for issuance.

The additional common stock to be authorized will have rights identical to the currently outstanding common stock of the Company. The proposed amendment will not affect the par value of the common stock, which will remain at \$.01 per share, nor will it affect any series of the Company's preferred stock.

## Table of Contents

Under the Company's Certificate of Incorporation, shareholders do not have preemptive rights to subscribe to additional securities which may be issued by the Company. This means that current shareholders do not have a prior right to purchase any new issue of the Company's capital stock in order to maintain their proportionate ownership of common stock. In addition, if the Company issues additional shares of common stock or other securities convertible into common stock in the future, it could dilute the voting rights of existing shareholders and could also dilute earnings per share and book value per share of existing shareholders. The increase in authorized common stock could also discourage or hinder efforts by other parties to obtain control of the Company, thereby having an anti-takeover effect. The increase in authorized shares of common stock is not being proposed in response to any known attempt to acquire control of the Company.

If the amendment to the Certificate of Incorporation is approved by our shareholders, it is expected that the amendment will be filed with the Secretary of State of the State of Oklahoma on June 12, 2006, and the first sentence of Article IV of the Certificate of Incorporation will be amended and restated to read as follows:

The total number of shares of capital stock which the Corporation shall have authority to issue is Seven Hundred Seventy Million (770,000,000) shares consisting of Twenty Million (20,000,000) shares of Preferred Stock, par value \$0.01 per share, and Seven Hundred Fifty Million (750,000,000) shares of Common Stock, par value \$0.01 per share.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSED AMENDMENT TO THE COMPANY'S CERTIFICATE OF INCORPORATION TO INCREASE THE AUTHORIZED COMMON STOCK TO 750,000,000 SHARES.** The affirmative vote of the holders of a majority of the outstanding shares of common stock will be required for adoption of the amendment.

### **VOTING ITEM 3 PROPOSAL TO AMEND LONG TERM INCENTIVE PLAN**

We are asking shareholders to vote to approve an amendment (the Amendment) to the Long Term Incentive Plan (the LTIP) to increase the aggregate number of shares of common stock which are available for awards under the LTIP from 3,000,000 shares to 7,000,000 shares. The additional shares requested will allow the Company to continue to provide stock-based compensation to its employees, consultants and non-employee directors over the next two to three years. Other amendments being proposed include the following:

Increasing the aggregate number of shares available for incentive stock option awards under the LTIP from 1,500,000 to 3,000,000;

Decreasing the number of shares available for awards to any participant in any calendar year from 1,000,000 to 750,000;

Clarifying the circumstances in which the vesting of an award may be accelerated;

Prohibiting dividend equivalents with respect to stock options and SARs; and

Further clarifying the prohibition on repricing, replacing or repurchasing underwater stock options.

Our shareholders approved the LTIP on June 10, 2005 and the Board approved the Amendment, subject to shareholder approval, on March 3, 2006. The full text of the LTIP, as amended, is included as Exhibit A to this proxy statement.

Stock-based compensation is an essential component of the Company's compensation system. Consistent with our compensation philosophy, we believe stock-based compensation fosters and promotes the sustained progress, growth and profitability of the Company by:

attracting, motivating and retaining individuals of exceptional ability;

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allowing employees, directors and consultants to acquire a proprietary and vested interest in the growth and performance of the Company;



**Table of Contents**

providing incentives and rewards to employees, directors and consultants who are in a position to contribute materially to the success and long-term objectives of the Company; and

aligning the financial interests of employees and directors with those of the Company's shareholders.

Pursuant to the Amendment, the Board has reserved an additional 4,000,000 shares of common stock for issuance under the LTIP. This amount represents 1.0% of our outstanding common shares and 0.9% of our fully diluted common shares (which assumes the issuance of shares pursuant to outstanding stock options, shares available for issuance under our stock-based compensation plans and conversions of our preferred stock and convertible senior notes into common stock at the current conversion prices).

As of the record date, stock options outstanding and shares available for issuance under the Company's stock incentive plans are the following:

|  | LTIP             | 2003 Stock Incentive Plan | 2003 Stock Award Plan <sup>(1)</sup> | Terminated Plans  | Total             |
|--|------------------|---------------------------|--------------------------------------|-------------------|-------------------|
| Outstanding stock options, 12/31/05                | 162,500          |                           |                                      | 20,093,513        | 20,256,013        |
| Granted  |                  |                           |                                      |                   |                   |
| Exercised  |                  |                           |                                      | (8,445,728)       | (8,445,728)       |
| Canceled/forfeited                                 |                  |                           |                                      | (27,940)          | (27,940)          |
| <b>Outstanding stock options, 4/17/06</b>          | <b>162,500</b>   |                           |                                      | <b>11,619,845</b> | <b>11,782,345</b> |
| Shares available for future awards, 12/31/05       | 2,737,500        | 3,714,944                 | 30,000                               |                   | 6,482,444         |
| Awarded  |                  | (1,889,490)               | (10,000)                             |                   | (1,899,490)       |
| Canceled/forfeited/traded for taxes                |                  | 215,499                   |                                      |                   | 215,499           |
| <b>Shares available for future awards, 4/17/06</b> | <b>2,737,500</b> | <b>2,040,953</b>          | <b>20,000</b>                        |                   | <b>4,798,453</b>  |

(1) The 2003 Stock Award Plan is used to issue 10,000 shares of common stock to new directors upon their appointment to the Board. As of the record date, the weighted average exercise price of outstanding stock options is \$7.11 per share and the weighted average remaining contractual life is 5.88 years.

**Background on Stock Compensation at Chesapeake**

Since our initial public offering in 1993, the Board and management have firmly believed in and encouraged broad employee stock ownership through participation in our stock-based compensation plans across all levels of the Company. In the 11 years that followed, the Company implemented this strategy through semi-annual grants of stock options to all employees. The success, growth and profitability that the Company experienced over this time period was, we believe, in large measure due to the efforts of the management team and employees. Key performance statistics during the eleven-year period ending in 2003 are as follows:

We recorded the 13<sup>th</sup> best stock price performance among all U.S. public companies, with a 2,476% increase in our stock price (including the reinvestment of dividends);

Our annual revenues increased 9,900%, from \$17 million to \$1.7 billion;

Our total assets increased 5,700%, from \$79 million to \$4.6 billion;

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Our shareholders' equity increased 5,400%, from \$31 million to \$1.7 billion;

Our oil and gas reserves increased 2,200%, from 137 bcf to 3.2 tcf; and

Our annual oil and gas production increased 6,600%, from 4 bcf to 268 bcf.

## Table of Contents

In addition to these financial and operational successes, employee retention was among the strongest in the industry over this time period.

In 2004, the Board and management re-evaluated the Company's equity compensation program and decided to begin utilizing restricted stock in place of stock options for the following reasons:

The Company could realize a substantial reduction in its annual stock usage rate or burn rate, without a reduction in compensation value transferred to the employees;

A lower annual stock usage rate would reduce the dilutive effect of employee stock compensation to our shareholders;

The income statement impact of restricted stock is more predictable, and less volatile, than that of stock options;

The compensation value and tax treatment of restricted stock is easier for employees to measure and understand; and

The ease with which restricted stock is transferred to employees upon vesting (as opposed to an intentional action by the employee to exercise a stock option) better facilitates and promotes the long-term ownership of our common stock by employees.

The shift to restricted stock was supported by the Company's management and employees who, together, delivered record-setting performance to shareholders in 2004 and 2005, as indicated by the following:

Our stock price increased 134% from \$13.58 per share on December 31, 2003 to \$31.73 per share on December 31, 2005;

Our annual revenues increased 172% from \$1.7 billion in 2003 to \$4.7 billion in 2005;

Our total assets increased 250% from \$4.6 billion at December 31, 2003 to \$16.1 billion at December 31, 2005;

Our shareholders' equity increased 265% from \$1.7 billion at December 31, 2003 to \$6.2 billion at December 31, 2005;

Our proved oil and gas reserves increased 134% from 3.2 tcf at December 31, 2003 to 7.5 tcf at December 31, 2005;

Our annual oil and gas production increased 75% from 268 bcf at December 31, 2003 to 469 bcf at December 31, 2005; and

We were selected to join the Fortune 500 and the S&P 500.

As the Company's assets and revenues have grown, so have the number of employees, with the Company adding over 1,100 employees in 2005 alone. In addition, increasing competitiveness for technical talent in the energy industry has resulted in equity-based compensation becoming an ever more important component for key employee recruitment and retention. Thus the Board and management believe that approval of the amendment to the LTIP is crucial to the Company's ability to execute its business plan and growth strategy. In their view, stock-based compensation and employee and director stock ownership have greatly contributed to the Company's growth and success to date and should continue to contribute to its success in the future.

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The following is a summary of the material terms of the LTIP as proposed to be amended. Significant differences from the LTIP as currently in effect are identified.

### **Plan Features**

*Administration.* The Compensation Committee of the Board of Directors has overall authority to administer the LTIP. The Employee Compensation Committee, a subcommittee of the Compensation Committee, can be

## Table of Contents

authorized to grant and determine the terms and conditions of awards granted to consultants and employees who are not executive officers. The Compensation Committee and Employee Compensation Committee are collectively, the Committee. Messrs. Whittemore and Keating serve as the Compensation Committee and, for 2005, Messrs. McClendon and Ward served as the Employee Compensation Committee. For 2006, Mr. McClendon serves as the Employee Compensation Committee. Any awards or formula for granting awards under the LTIP made to non-employee directors must be approved by the Board. The Compensation Committee is authorized and has complete discretion to formulate policies and establish rules and regulations for the administration of the LTIP.

*Eligible Participants.* As of the Record Date, the Company had approximately 3,600 employees (eight of whom were executive officers) and six non-employee directors who were eligible to participate in the LTIP. The Committee determines from time to time the awards to be granted under the LTIP, taking into account the duties of the respective participants, their present and potential contributions to the success of the Company and such other factors as the Committee deems relevant.

*Shares Available for Award.* The aggregate number of shares of common stock which are available for award under the LTIP will not exceed 7,000,000 shares, an increase of 4,000,000 shares. Any of the authorized shares of common stock may be used for any of the types of awards described in the LTIP, except that no more than 3,000,000 shares of common stock may be issued pursuant to incentive stock options, an increase of 1,500,000 shares. The aggregate number of shares of common stock underlying options that may be granted to any participant in any calendar year may not exceed 750,000 shares and the aggregate number of shares of common stock pursuant to restricted stock, performance awards or other stock awards granted to any participant in any calendar year may not exceed 750,000 shares. The proposed amendment lowers each of these limits from 1,000,000 shares to the 750,000 shares reflected above.

Common stock that is related to awards that (i) are forfeited, cancelled, terminated or expire prior to the delivery of the common stock, (ii) are ultimately paid in cash rather than common stock, (iii) are tendered or withheld in order to satisfy payment of the exercise price of an option, or (iv) are tendered or withheld in order to satisfy payment of withholding tax obligations, will again be available for future awards under the LTIP.

The LTIP provides for appropriate adjustments in the event of a merger, consolidation, recapitalization, stock split, combination of shares, stock dividend or similar transaction involving the Company.

*Types of Awards.* The LTIP authorizes the issuance of the following types of awards:

*Options.* Incentive stock options and nonqualified stock options may be granted under the LTIP. The exercise price of options may not be less than the fair market value of our common stock on the date of grant (or 110% of the fair market value of such shares in the case of an incentive stock option granted to a person who holds more than 10% of the combined voting power of the Company's outstanding securities) and no option may be exercised after the expiration of ten years from the date of grant. An option may be exercised only to the extent that the option is vested in accordance with a schedule determined by the Committee in its sole discretion.

With respect to incentive stock options, the aggregate fair market value (determined as of the grant date) of the stock which a participant may first have the right to acquire pursuant to the exercise of any incentive stock options in any calendar year under all incentive stock options of the Company may not exceed \$100,000. In the event options granted to a participant exceed the \$100,000 annual limitation, the participant will be deemed to have been granted incentive stock options with respect to shares within the \$100,000 limitation and nonqualified stock options with respect to shares which cause such limitation to be exceeded. The fair market value of shares of common stock is determined by reference to the reported closing price on the NYSE.

## Table of Contents

*Stock Appreciation Rights.* SARs may be granted to participants alone or in tandem with concurrently or previously issued stock options. The exercise price of a SAR may not be less than the fair market value of our common stock on the date of grant and no SAR may be exercised after the expiration of ten years from the date of grant. A SAR issued in tandem with an option will only be exercisable to the extent that the related option is exercisable and when a tandem SAR is exercised, the option to which it relates will cease to be exercisable, to the extent of the number of shares with respect to which the tandem SAR is exercised. Similarly, when the option is exercised, the tandem SARs relating to the shares covered by such option exercise will terminate. The payment of the appreciation associated with the exercise of a SAR will be made by the Company in shares of our common stock.

*Performance Shares.* Performance shares issued under the LTIP will vest in accordance with the achievement of certain performance or other criteria as determined by the Committee in its sole discretion. The Committee has the discretion to (i) permit a participant who ceases to be an eligible participant in the LTIP before the end of any performance period, or the personal representative of a deceased participant, to continue to be subject to a performance award relative to the current performance period until such awards are forfeited or earned pursuant to their terms and conditions or (ii) authorize the payment to such participant, or the personal representative of a deceased participant, of the performance shares which would have been paid to the participant had the participant remained an eligible participant in the LTIP to the end of the performance period. A participation period may be no less than one year in duration.

*Restricted Stock.* Restricted stock issued under the LTIP will vest in accordance with a schedule or achievement of certain performance or other criteria as determined by the Committee in its sole discretion. The Committee has the discretion to grant a holder of restricted stock the right to vote such shares and to receive dividends. The minimum restriction period applicable to any restricted stock that is not subject to performance criteria will be three years from the date of grant.

*Other Stock Awards.* The Committee, in its sole discretion, may specify the terms and provisions of other forms of equity-based or equity-related awards not described above which the Committee determines to be consistent with the purpose of the LTIP and the interests of the Company, which awards may provide for cash payments based in whole or in part on the value or future value of our common stock, for the acquisition or future acquisition of common stock, or any combination thereof. The minimum restriction period applicable to other stock awards that are not subject to performance criteria will be three years from the date of grant.

*Other Cash Awards.* The Committee, in its sole discretion, may grant cash awards, including without limitation, discretionary awards, awards based on objective performance criteria or awards based on subjective performance criteria.

*No Discounted Options or SARs; No Repricing; No Dividend Equivalents.* The LTIP does not permit the granting of discounted stock options or SARs and, without the approval of shareholders, prohibits the repricing or cancellation and re-grant of stock options, and the repurchase of underwater stock options or SARs. The LTIP, as amended, also prohibits dividend equivalents with respect to stock options and SARs.

*Fundamental Transaction; Change of Control.* Upon the occurrence of a fundamental transaction, defined as the merger of the Company with another entity in which the Company is not the surviving entity or other business combination or transaction resulting in other securities being substituted for the common stock or the common stock no longer being issued, the Board of Directors or the Committee may take one or more of the following actions without the consent of any Participant: (i) arrange for the substitution, in exchange for outstanding options and SARs that are not exercised prior to the fundamental transaction, of comparable options to purchase and stock appreciation rights related to equity securities of the surviving corporation (or a parent or subsidiary of the surviving corporation), and for other awards to remain outstanding after the fundamental transaction and be converted to comparable awards of the surviving corporation (or a parent or subsidiary of the surviving corporation), on such terms as the Board of Directors or Committee determines are appropriate;

## **Table of Contents**

(ii) accelerate the vesting of awards so that (a) all outstanding options and SARs will be fully exercisable and any unexercised options and SARs will terminate upon the closing of the fundamental transaction, (b) restrictions on outstanding restricted stock, other stock awards and cash awards shall lapse upon the closing of the fundamental transaction; and (c) each outstanding performance award is deemed to have achieved a level of performance that would cause all of the performance shares to become payable upon the closing of the fundamental transaction; and (iii) cancel or arrange for the cancellation of awards in exchange for cash payments, equity securities or other consideration to participants, on such terms as the Board of Directors or Committee determines are appropriate. Upon a change of control, as defined in the LTIP, the Board of Directors or Committee may, but need not, take any one or more of the aforementioned actions. The Board of Directors or the Committee need not take the same action for each award or participant, and no such action shall require the consent of any participant.

Section 4999 of the Code imposes an excise tax on executives who receive compensation in connection with a change of control that exceeds certain specified limits. The Committee may, in its sole discretion, provide in any award agreement for an additional gross-up payment by the Company in the event that acceleration of vesting of any award under the LTIP is subject to such a change of control excise tax. If an LTIP participant were entitled to receive a gross-up payment, we would pay the participant an additional amount such that the amount received under the award after payment of the excise tax will equal the total payments that the participant would have been entitled to receive absent the excise tax.

*Termination and Amendment.* The LTIP will terminate at midnight, September 30, 2014, but will continue in effect until all matters relating to the exercise or settlement of awards outstanding as of the time of termination of the LTIP have been completed. Prior to such time, the LTIP may be earlier terminated or amended by the Board of Directors. Shareholder approval is required for any amendment to the LTIP if (i) such approval is necessary or desirable to qualify or comply with any tax or regulatory requirement for which or with which the Board deems it necessary or desirable to qualify or comply, or (ii) in the opinion of counsel to the Company, shareholder approval is required by any federal or state laws or regulations or the rules of any stock exchange on which the common stock may be listed.

*Acceleration of Awards.* The Committee has the discretion to accelerate the vesting of unvested awards in the case of retirement from employment or service on the Board, death, disability, or in involuntary termination circumstances.

*Transferability.* Awards are not transferable except by will or by the laws of descent and distribution; however, options held by non-employee directors may be transferable under certain circumstances, as determined by the Committee.

*Federal Income Tax Consequences.* Under current federal tax law, the following are the United States federal income tax consequences generally arising with respect to restricted stock, performance shares, other stock awards and options granted under the LTIP. The discussion is not a complete analysis of all federal income tax consequences and does not cover all specific transactions which may occur.

Absent the filing of a Section 83(b) election with the Internal Revenue Service, no income will be recognized by a participant for U.S. federal income tax purposes upon the grant of restricted stock, performance shares or other stock awards. Upon the vesting of an award for which no payment was made by the participant, the participant will recognize ordinary income in an amount equal to the fair market value of the common stock on the vesting date. Income recognized upon vesting by a participant who is an employee will be considered compensation subject to withholding at the time the income is recognized and, therefore, the Company must make the necessary arrangements with the participant to ensure that the amount of tax required to be withheld is available for payment. Stock awards provide the Company with a deduction equal to the amount of income recognized by the participant, subject to certain deduction limitations. A participant's adjusted basis in the common stock received through stock awards is equal to any ordinary income related to the award recognized by the participant. If a participant thereafter sells the common stock, any amount realized over(under) the adjusted

**Table of Contents**

basis of the common stock will constitute capital gain(loss) to the participant for U.S. federal income tax purposes. If a participant forfeits an award prior to its vesting, the participant will not recognize gain or loss as a result of such forfeiture.

Upon the grant of restricted stock, performance shares or other stock awards, the participant may file an election under Section 83(b) of the Code to accelerate the recognition of ordinary income to the grant date of the award. Such ordinary income is equal to the fair market value of the common stock on the grant date (assuming no payment by the participant for the stock) and is considered compensation subject to withholding for employees. If a participant subsequently forfeits the stock or the stock depreciates in value after a Section 83(b) election is filed, the participant will not be eligible for capital loss treatment with respect to the stock.

There are no tax consequences associated with the grant or timely exercise of an incentive stock option. If a participant holds the common stock acquired upon the exercise of an incentive stock option for at least one year after exercise and two years after the grant of the option, the participant will recognize capital gain or loss upon sale of the common stock equal to the difference between the amount realized on the sale and the exercise price. If the common stock is not held for the required period, the participant will recognize ordinary income upon disposition in an amount equal to the excess of the fair market value of the common stock on the date of exercise over the exercise price, up to the amount of the gain on disposition. Any additional gain realized by the participant upon disposition will be capital gain. The excess of the fair market value of common stock received upon the exercise of an incentive stock option over the option price for the common stock is a preference item for purposes of the alternative minimum tax. An expense deduction by the Company in connection with the exercise of an incentive stock option is not allowed unless the participant recognizes ordinary income.

Generally, no income will be recognized by a participant for U.S. federal income tax purposes upon the grant of a nonqualified stock option. Upon exercise of a nonqualified stock option, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the common stock on the date of exercise over the amount of the exercise price. Income recognized, by a participant who is an employee, upon the exercise of a nonqualified stock option will be considered compensation subject to withholding at the time the income is recognized and, therefore, the Company must make the necessary arrangements with the participant to ensure that the amount of tax required to be withheld is available for payment. Nonqualified stock options provide the Company with a deduction equal to the amount of income recognized by the participant, subject to certain deduction limitations. The adjusted basis of common stock transferred to a participant pursuant to the exercise of a nonqualified stock option is the price paid for the common stock plus an amount equal to any income recognized by the participant as a result of the exercise of the option. If a participant thereafter sells common stock acquired upon exercise of a nonqualified stock option, any amount realized over(under) the adjusted basis of the common stock will constitute capital gain(loss) to the participant for U.S. federal income tax purposes.

If a participant surrenders common stock which the participant already owns as payment for the exercise price of a stock option, the participant will not recognize gain or loss as a result of such surrender. The number of shares received upon exercise of the option equal to the number of shares surrendered will have a tax basis equal to the tax basis of the surrendered shares. The holding period for such shares will include the holding period for the shares surrendered. The remaining shares received will have a basis equal to the amount of income the participant recognizes upon receipt of such shares. The participant's holding period for such shares will commence on the day after such exercise.

Generally, no income will be recognized by a participant for U.S. federal income tax purposes upon the grant of a stand-alone or tandem SAR. Upon exercise of a SAR, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the common stock on the date of exercise over the amount of the exercise price. Income recognized, by a participant who is an employee, upon the exercise of a SAR will be considered compensation subject to withholding at the time the income is recognized and, therefore, the Company must make the necessary arrangements with the participant to ensure that the amount of tax



**Table of Contents**

required to be withheld is available for payment. SARs provide the Company with a deduction equal to the amount of income recognized by the participant, subject to certain deduction limitations. The adjusted basis of common stock transferred to a participant pursuant to the exercise of a SAR is the price paid for the common stock plus an amount equal to any income recognized by the participant as a result of the exercise of the SAR. If a participant thereafter sells common stock acquired upon exercise of a SAR, any amount realized over(under) the adjusted basis of the common stock will constitute capital gain(loss) to the participant for U.S. federal income tax purposes.

Upon the vesting of a cash award, the participant will recognize ordinary income in an amount equal to the cash received. Income recognized upon the vesting of a cash award, by a participant who is an employee, will be considered compensation subject to withholding at the time the cash is received and, therefore, the Company must properly withhold the required tax.

**Burn Rate and Plan Benefits**

For 2003 through 2005, the Company's three-year average annual stock usage rate or burn rate was 2.45%. Burn rate is defined by Institutional Shareholder Services as the total number of equity awards granted in a given year divided by the number of common shares outstanding. Our burn rate in 2005 was 2.18%, reflecting the change we made to awarding officers and employees restricted stock rather than stock options.

There are currently 2,737,500 shares authorized for future issuance under the LTIP and 162,500 outstanding stock options granted to our non-employee directors as detailed in the following table:

| Grant     | Options     | Exercise | Expiration |
|-----------|-------------|----------|------------|
| Date      | Outstanding | Price    | Date       |
| 10/1/2004 | 37,500      | \$16.08  | 10/1/2014  |
| 1/3/2005  | 62,500      | \$15.47  | 1/3/2015   |
| 4/1/2005  | 62,500      | \$22.49  | 4/1/2015   |
|           | 162,500     |          |            |

The selection of officers, employees, consultants and non-employee directors who will receive future awards under the LTIP and the size and types of awards will be determined by the Committee or the Board of Directors. The compensation of non-employee directors currently includes the annual award of 12,500 shares of restricted common stock, as described below on page 18 under Directors Compensation. Other than such director equity compensation, it is not possible to predict the benefits or amounts that will be received by, or allocated to, particular individuals or groups eligible to receive future awards.

**Equity Compensation Plan Information**

The following table provides information as of December 31, 2005 about shares of the Company's common stock issuable under the equity compensation plans we maintain for our employees, consultants and/or directors:

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
|  | (a)   | (b)   | (c)   |
| Equity compensation plans approved by shareholders     | 6,866,118   | \$ 6.61   | 6,452,444(1)  |
| Equity compensation plans not approved by shareholders | 13,389,602  | \$ 5.89   | 30,000(2)   |
| Total (3)  | 20,255,720  | \$ 6.14   | 6,482,444   |



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**Table of Contents**

- (1) Consists of 2,737,500 shares available under the LTIP pursuant to the types of awards described on pages 11 and 12 and 3,714,944 shares available for issuances of restricted stock and shares underlying stock options granted under our 2003 Stock Incentive Plan.
- (2) Represents common stock issuable under our 2003 Stock Award Plan for Non-Employee Directors which was adopted without shareholder approval. Does not include common stock issuable under our 401(k) Make-Up Plan.
- (3) Does not include 293 shares of common stock issuable upon the exercise of stock options assumed by the Company in connection with its acquisition of Hugoton Energy Corporation in 1998. The options expire in October 2008, and their weighted average exercise price is \$1.13.

The material features of all our plans are described in notes 7 and 9 of the notes to our financial statements included in Item 8 of our 2005 Form 10-K filed on March 14, 2006.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE AMENDMENT OF THE LONG TERM INCENTIVE PLAN.**

The affirmative vote of the holders of a majority of the shares of common stock present at the meeting, in person or by proxy, will be required for approval of the amendment to the LTIP.

**CORPORATE GOVERNANCE**

The Board of Directors is responsible to the Company's shareholders for the oversight of the Company and recognizes the importance and necessity that an effective corporate governance environment plays in the Board's ability to adequately oversee, advise and monitor the Company. The Board has adopted a set of Corporate Governance Principles that address the role, composition and functioning of the Board which is posted on the Company's website at [www.chkenergy.com](http://www.chkenergy.com) and is available in print to any shareholder who requests it.

**Code of Business Conduct and Ethics**

The Board has adopted a Code of Business Conduct and Ethics applicable to all directors, officers and employees of the Company, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct and Ethics is posted on the Company's website at [www.chkenergy.com](http://www.chkenergy.com) under the Corporate Governance caption and is available in print to any shareholder who requests it. Waivers of provisions of the Code as to any director or executive officer and amendments to the Code must be approved by the Audit Committee of the Board. We will post on our website required disclosure about any such waiver or amendment.

**Communications to the Board**

The Company has established a Director Access Line whereby shareholders wishing to communicate directly with our non-employee directors may leave telephone messages for the directors. The Director Access Line number is 1-877-743-7283 (organization code 80002). Alternatively, shareholders can send written communications to non-employee directors as follows:

Chesapeake Energy Corporation Board of Directors

c/o Jennifer M. Grigsby, Secretary

P.O. Box 18496

Oklahoma City, OK 73154

All calls received by the Director Access Line will be reported promptly to the Company's Secretary. Depending upon the subject matter of the communication, the Secretary will:

Handle the inquiry where director input is not deemed necessary, such as a request for information about the Company;

Forward the communication to the non-employee directors; or

Not forward the communication if it clearly relates to an inappropriate or irrelevant topic.

## **Table of Contents**

A report of all communications and their disposition will be provided to the directors at the next regular quarterly meeting of the Board.

### **Board Independence**

In 2006, the Board, through its Nominating and Corporate Governance Committee evaluated the independence of each director in accordance with the NYSE's corporate governance listing standards and determined that all directors other than Mr. McClendon are independent. In addition, none of the directors determined to be independent have any material relationship with the Company and no such director is an executive officer of any tax exempt organization to which the Company made contributions in 2005.

### **Executive Sessions**

Non-employee directors meet regularly in executive session after the scheduled quarterly Board meetings. The non-employee directors rotate (alphabetically by last name) their service as presiding director over the executive sessions.

## **THE BOARD OF DIRECTORS AND ITS COMMITTEES**

During 2005, the Board of Directors held five meetings in person and seven meetings by telephone conference. Additionally, management frequently discusses matters with the directors on an informal basis. The Board of Directors has a standing Compensation Committee, an Audit Committee, and a Nominating and Corporate Governance Committee. Each director attended, either in person or by telephone conference, at least 80% of the Board and committee meetings held while serving as a director or committee member in 2005. It is the Company's policy that a majority of the directors be in attendance at all annual meetings of shareholders. All of the Company's directors attended the 2005 annual meeting of shareholders.

### **Compensation Committee**

The duties and objectives of the Compensation Committee are described under "Report of the Compensation Committee on Executive Compensation" below. Messrs. Whittemore and Keating serve on the Compensation Committee. The Compensation Committee held two meetings during 2005. Messrs. Whittemore and Keating are both independent, as determined by the Board of Directors in accordance with the NYSE corporate governance listing standards. A copy of the Compensation Committee Charter, as approved by the Committee and the Board of Directors, is posted on the Company's website at [www.chkenegy.com](http://www.chkenegy.com) and is available in print to any shareholder who requests it.

The Employee Compensation Committee, comprised in 2005 of Messrs. McClendon and Ward, administers the Company's compensation program with respect to all employees who are not executive officers. The Employee Compensation Committee held two meetings during 2005.

### **Audit Committee**

The duties and the objectives of the Audit Committee are described under "Audit Committee Report" below. Messrs. Kerr, Maxwell and Nickles served on the Audit Committee in 2005 and Mr. Davidson joined the Audit Committee in March 2006. The Committee held seven meetings during 2005. Messrs. Kerr, Maxwell, Nickles and Davidson are all independent, as determined by the Board in accordance with Section 10A of the Securities Exchange Act of 1934 and the NYSE corporate governance listing standards. Messrs. Kerr and Maxwell have been designated by the Board as "audit committee financial experts" as defined in Item 401(h) of Regulation S-K. For the relevant experience of Messrs. Kerr and Maxwell, please refer to their respective biographies set forth herein.

**Table of Contents****Nominating and Corporate Governance Committee**

The duties and objectives of the Nominating and Corporate Governance Committee are described under Report of the Nominating and Corporate Governance Committee below. In 2005, Messrs. Kerr and Whittemore served on the Nominating and Corporate Governance Committee. In 2006, Messrs. Whittemore, Davidson and Keating serve on the Committee. The Nominating and Corporate Governance Committee met once in 2005. Each of the Committee members is independent, as determined by the Board of Directors in accordance with the NYSE's corporate governance listing standards. A copy of the Nominating and Corporate Governance Committee Charter, as approved by the Committee and the Board of Directors, is posted on the Company's website at [www.chkenergy.com](http://www.chkenergy.com) and is available in print to any shareholder who requests it.

**Directors Compensation**

Non-employee director compensation consists of (i) an annual retainer of \$25,000, payable in quarterly installments of \$6,250; (ii) \$10,000 and \$2,500 payable for each board meeting attended in person and telephonically, respectively, not to exceed \$60,000 per year for board meetings attended; and (iii) an annual grant of 12,500 shares of restricted stock, one quarter of which vests immediately upon award and the remaining three quarters of which vest ratably over the three years following the date of award. No additional compensation is paid to directors for participating on or chairing a Board committee. Directors are also reimbursed for travel and other expenses directly related to their service as directors.

Directors are eligible to defer all, or a portion, of their annual retainers and/or meeting fees through the Chesapeake Energy Corporation Deferred Compensation Plan on a tax-favored basis. In addition, non-employee directors are required to hold at least 15,000 shares of the Company's common stock at all times while serving as a director. Newly appointed directors are given one year from the date of appointment to comply with this stock ownership requirement.

The following table sets forth the compensation earned by our non-employee directors in 2005.

| Director                | Annual Retainer | Meeting Fees | Aircraft         | Stock Options |                    | Restricted Stock |                    |
|-------------------------|-----------------|--------------|------------------|---------------|--------------------|------------------|--------------------|
|                         |                 |              | Tax Gross-up (a) | Shares        | Exercise Price (b) | Shares           | Value at Grant (c) |
| Frank Keating           | \$ 22,500       | \$ 54,500    | \$ 17,258        | 25,000        | \$ 18.98           | 12,500           | \$ 302,375         |
| Breene M. Kerr          | \$ 22,500       | \$ 57,000    | \$ 675           | 25,000        | \$ 18.98           | 12,500           | \$ 302,375         |
| Charles T. Maxwell      | \$ 22,500       | \$ 52,000    | \$ 726           | 25,000        | \$ 18.98           | 12,500           | \$ 302,375         |
| Don Nickles             | \$ 22,500       | \$ 57,000    | \$ 3,428         | 25,000        | \$ 18.98           | 12,500           | \$ 302,375         |
| Frederick B. Whittemore | \$ 22,500       | \$ 57,000    | \$               | 25,000        | \$ 18.98           | 12,500           | \$ 302,375         |

- (a) Non-employee directors may utilize our fractional ownership interests in Company aircraft for travel related to their service to the Company. In 2005, the Company adopted a policy of making gross-up payments to non-employee directors for taxes incurred when their family members accompany them on such flights.
- (b) Represents the weighted average of the exercise prices of the stock options granted to non-employee directors on January 3 and April 1, 2005. Prior to July 2005, non-employee directors were granted stock options to purchase 12,500 shares of the Company's common stock on the first business day of each calendar quarter. The exercise prices of such options are equal to the fair market value of the Company's common stock on the grant dates. Effective July 1, 2005, the Company began making annual restricted stock grants to non-employee directors, in place of the quarterly stock option grants.
- (c) The value shown is based on the closing price of the Company's common stock of \$24.19 per share on July 1, 2005, the date of the award. Under the Company's 2003 Stock Award Plan for Non-Employee Directors, 10,000 shares of our common stock are awarded to each newly appointed non-employee director on his or her first day of service. Sen. Nickles

## **Table of Contents**

and Mr. Davidson were awarded 10,000 shares under this plan on January 3, 2005 and March 1, 2006, respectively, when each joined our Board. The closing prices of our common stock on January 3, 2005 and March 1, 2006 were \$15.47 and \$30.43 per share, respectively.

### **Audit Committee Report**

The Audit Committee assists the Board of Directors in overseeing (i) the integrity of the Company's financial statements; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independent auditor's qualifications and independence; and (iv) the performance of the Company's internal auditors and independent auditor. In so doing, it is the responsibility of the Committee to maintain free and open communication between the directors, the independent auditor and the management of the Company.

The Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor for the purpose of preparing or issuing audit reports or performing other audit, review or attest services for the Company. The independent auditor reports directly to the Committee.

The full text of the Committee's charter is available on the Company's website at [www.chkenergy.com](http://www.chkenergy.com) under Corporate Governance and is also attached to this proxy statement as Exhibit B. The Committee updated and restated its charter in 2005.

The Committee has discussed and reviewed with management the audited financial statements of the Company for the year ended December 31, 2005. The Committee has also discussed with our independent auditing firm, PricewaterhouseCoopers LLP, the matters required by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended by Statement on Auditing Standards No. 90. The Committee has received and reviewed the written disclosures from PricewaterhouseCoopers LLP as required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, regarding the firm's independence. We have discussed with PricewaterhouseCoopers LLP its independence and considered the compatibility of non-audit services rendered by PricewaterhouseCoopers LLP with its independence. Based on these reviews and discussions, the Committee recommended to the Board of Directors that the Company's audited financial statements be included in its 2005 Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

Members of the Audit Committee:

*Breene M. Kerr, Chairman*

*Richard K. Davidson*

*Charles T. Maxwell*

*Don Nickles*

### **Nominating and Corporate Governance Committee Report**

The Nominating and Corporate Governance Committee is responsible for identifying and recommending qualified candidates to the Board for nomination as members of the Board and for recommending to the Board the corporate governance principles applicable to the Company. A copy of the Nominating and Corporate Governance Committee Charter, as approved by the Committee and the Board, is posted on the Company's website at [www.chkenergy.com](http://www.chkenergy.com) and is available in print to any shareholder who requests it.

The Committee periodically assesses, and advises the Board, whether the current size of the Board is sufficient to function effectively as a body, assesses the current Board mix and considers skill sets that would complement those of the current Board and provide value-added perspective.

It is challenging to identify highly qualified candidates who are willing to serve on public company boards. Therefore, we believe it is essential to continuously and actively identify and evaluate candidates, on an informal

## **Table of Contents**

basis, who would potentially be willing to serve as a director on the Board at some future time. We may also use our network of contacts, or may engage, as we deem appropriate, a professional search firm to identify potential candidates. In addition, we will consider director candidates recommended by shareholders.

The Committee has no minimum qualifications for candidates. In general, however, we review and evaluate both incumbent and potential new directors in light of the following criteria:

experience in business, government, education, technology or public interests;

high-level managerial experience in large organizations;

breadth of knowledge regarding the Company's business or industry;

specific skills, experience or expertise related to an area of importance to the Company such as energy production, consumption, distribution or transportation, government, policy, finance or law;

moral character and integrity;

commitment to shareholders' interests;

an understanding of a Board's fiduciary responsibilities to the shareholders and a director's duty to represent all shareholders as opposed to individual constituencies;

ability to apply sound and independent business judgment;

ability to provide insights and practical wisdom based on experience and expertise;

ability to read and understand financial statements; and

ability to devote the time necessary to carry out the duties of a director, including attendance at meetings and consultation on Company matters.

Qualified candidates for nomination to the Board are considered without regard to race, color, religion, gender, ancestry or national origin.

On an annual basis, in advance of the annual meeting of shareholders, we will recommend to the Board a slate of nominees to be submitted to the Company's shareholders at the next annual meeting. The Board has the authority to accept, modify or reject the slate of nominees recommended by the Committee.

The Committee, with the approval of the full Board, may determine from time to time that it is in the best interests of the Company and its shareholders to add a new director to the Board between annual meeting dates. If such determination is made, we will evaluate potential candidates, as described above and may make a formal recommendation to the Board that a potential candidate be appointed to the Board to serve until the next annual meeting of the Company's shareholders.



## Edgar Filing: CHESAPEAKE ENERGY CORP - Form DEF 14A

In accordance with the Company's bylaws, we will consider candidates recommended by a shareholder of record provided such shareholder follows the procedure set forth below. Recommendations complying with the following requirements will receive the same consideration that the Committee's candidates receive, in accordance with the procedures set forth above.

The shareholder must deliver a written notice to the Company's Secretary recommending a potential director nominee for the Committee's consideration. Such notice must be delivered to the Company not less than 120 days prior to the meeting of shareholders.

The shareholder's notice must set forth:

- a. All information relating to the proposed nominee that is required to be disclosed in a proxy statement soliciting proxies for the election of directors, pursuant to Regulation 14A of the Securities Exchange Act of 1934;

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**Table of Contents**

- b. The nominee's written consent to being named as a nominee and to serving as a director if elected and the shareholder's written consent to being identified as a shareholder recommending the nominee;
  - c. A statement in support of the nominee indicating why the person should be nominated for election to the Board; and
  - d. The name and address of, and number and class of shares of stock beneficially owned by, the shareholder giving the notice.
- Members of the Nominating and Corporate Governance Committee:

*Frederick B. Whittemore, Chairman*

*Richard K. Davidson*

*Frank Keating*

**INFORMATION REGARDING OFFICERS**

**Executive Officers**

In addition to Mr. McClendon, the following are also executive officers of the Company as of the Record Date.

*Marcus C. Rowland*, 53, was appointed Executive Vice President in 1998 and has been the Company's Chief Financial Officer since 1993. He served as Senior Vice President from 1997 to 1998 and as Vice President - Finance from 1993 until 1997. From 1990 until he joined the Company, Mr. Rowland was Chief Operating Officer of Anglo-Suisse, L.P. assigned to the White Nights Russian Enterprise, a joint venture of Anglo-Suisse, L.P. and Phibro Energy Corporation, a major foreign operation which was granted the right to engage in oil and gas operations in Russia. Prior to his association with White Nights Russian Enterprise, Mr. Rowland owned and managed his own oil and gas company and prior to that was Chief Financial Officer of a private exploration company in Oklahoma City from 1981 to 1985. Mr. Rowland is a Certified Public Accountant. Mr. Rowland graduated from Wichita State University in 1975.

*Steven C. Dixon*, 47, has been Executive Vice President - Operations and Chief Operating Officer since February 2006. Mr. Dixon was Senior Vice President - Production from 1995 to February 2006 and served as Vice President - Exploration from 1991 to 1995. Mr. Dixon was a self-employed geological consultant in Wichita, Kansas from 1983 through 1990. He was employed by Beren Corporation in Wichita, Kansas from 1980 to 1983 as a geologist. Mr. Dixon graduated from the University of Kansas in 1980.

*J. Mark Lester*, 53, has been Executive Vice President - Exploration since April 2006. He served as Senior Vice President - Exploration from 1995 to March 2006 and served as Vice President - Exploration from 1989 to 1995. From 1986 to 1989, Mr. Lester was self-employed and acted as a consultant to Messrs. McClendon and Tom L. Ward. He was employed by various independent oil companies in Oklahoma City from 1980 to 1986, and was employed by Union Oil Company of California from 1977 to 1980 as a geophysicist. Mr. Lester graduated from Purdue University in 1975 and 1977.

*Douglas J. Jacobson*, 52, has been Executive Vice President - Acquisitions and Divestitures since April 2006. He served as Senior Vice President - Acquisitions and Divestitures from 1999 to March 2006. Prior to joining the Company, Mr. Jacobson was employed by Samson Investment Company from 1980 until August 1999, where he served as Senior Vice President - Project Development and Marketing from 1996 to 1999. Prior to joining Samson, Mr. Jacobson was employed by Peat, Marwick, Mitchell & Co. Mr. Jacobson has served on various Oklahoma legislative commissions which have addressed issues in the oil and gas industry, including the Commission of Oil and Gas Production Practices and the Natural Gas Policy Commission. Mr. Jacobson is a Certified Public Accountant and graduated from John Brown University in 1976 and from the University of Arkansas in 1977.

## **Table of Contents**

*Henry J. Hood*, 45, was appointed General Counsel in April 2006, and has served as Senior Vice President Land and Legal since 1997. Mr. Hood served as Vice President Land and Legal from 1995 to 1997. Mr. Hood was retained as a consultant to the Company during the two years prior to his joining the Company, and he was associated with the law firm of White, Coffey, Galt & Fite from 1992 to 1995. Mr. Hood was associated with or a partner of the law firm of Watson & McKenzie from 1987 to 1992. Mr. Hood is a member of the Oklahoma and Texas Bar Associations. Mr. Hood graduated from Duke University in 1982 and from the University of Oklahoma College of Law in 1985.

*Martha A. Burger*, 53, has served as Treasurer since 1995 and as Senior Vice President Human Resources since 2000. She was the Company's Vice President Human Resources from 1998 until March 2000, Human Resources Manager from 1996 to 1998 and Corporate Secretary from 1999 to 2000. From 1994 to 1995, she served in various accounting positions with the Company, including Assistant Controller Operations. From 1989 to 1993, Ms. Burger was employed by Hadson Corporation as Assistant Treasurer and from 1993 to 1994 served as Vice President and Controller of Hadson Corporation. Prior to joining Hadson Corporation, Ms. Burger was employed by The Phoenix Resource Companies, Inc. as Assistant Treasurer and by Arthur Andersen & Co. Ms. Burger is a Certified Public Accountant and graduated from the University of Central Oklahoma in 1982 and from Oklahoma City University in 1992.

*Michael A. Johnson*, 40, has served as Senior Vice President Accounting, Controller and Chief Accounting Officer since 2000. He served as Vice President of Accounting and Financial Reporting from 1998 to 2000 and as Assistant Controller from 1993 to 1998. From 1991 to 1993, Mr. Johnson served as Project Manager for Phibro Energy Production, Inc., a Russian joint venture. From 1987 to 1991, he served as audit manager for Arthur Andersen & Co. Mr. Johnson is a Certified Public Accountant and graduated from the University of Texas at Austin in 1987.

## **Other Officers**

*Jeffrey A. Fisher*, 46, has been Senior Vice President Production since February 2006. He was Vice President Operations for Chesapeake's Southern Division from July 2005 to February 2006 and served as Operations Manager from May 2003 to July 2005. Prior to joining Chesapeake, Mr. Fisher held the position of Asset Manager for BP in the Mid Continent Business Unit from 2000 to May 2003. From 1993 to 2000, Mr. Fisher worked for Vastar Resources as an Engineering Manager. Mr. Fisher began his professional career with ARCO in 1983 as an engineer and served in various technical and management positions of increasing responsibility with ARCO until 1993. Mr. Fisher graduated from Oklahoma State University in 1983 and is a member of the Society of Petroleum Engineers.

*Jennifer M. Grigsby*, 37, was appointed Vice President in April 2006 and has served as the Company's Corporate Secretary since 2000 and as Assistant Treasurer since 1998. From 1995 to 1998, she served in various accounting positions with the Company. From 1994 to 1995, Ms. Grigsby was employed by Commander Aircraft Company as Supervisor of Finance and Human Resources and from 1991 to 1994, she served as a senior auditor for Deloitte & Touche LLC. Ms. Grigsby is a Certified Public Accountant and Certified Equity Professional. She graduated from Oklahoma State University in 1991 and from Oklahoma City University in 1999.

*James C. Johnson*, 48, has served as President of Chesapeake Energy Marketing, Inc., a wholly-owned subsidiary of Chesapeake Energy Corporation, since 2000. He served as Vice President Contract Administration for the Company from 1997 to 2000 and as Manager Contract Administration from 1996 to 1997. From 1980 to 1996, Mr. Johnson held various gas marketing and land positions with Enogex, Inc., Delhi Gas Pipeline Corporation, TXO Production Corp. and Gulf Oil Corporation. Mr. Johnson is a member of the Natural Gas & Energy Association of Oklahoma and graduated from the University of Oklahoma in 1980.

*Stephen W. Miller*, 49, has served as Senior Vice President Drilling since September 2001. He served as Vice President Drilling from 1996 to September 2001 and as District Manager College Station District from

**Table of Contents**

1994 to 1996. Mr. Miller held various engineering positions in the oil and gas industry from 1980 to 1993. Mr. Miller is a registered Professional Engineer and a member of the Society of Petroleum Engineers. Mr. Miller graduated from Texas A & M University in 1980.

*Jeffrey L. Mobley, 37*, has been Senior Vice President Investor Relations and Research since February 2006 and was Vice President Investor Relations and Research from May 2005 to February 2006. From 2002 to May 2005, Mr. Mobley was Vice President of Equity Research at Raymond James & Associates focusing on the exploration and production sector. From 1998 to 2002, Mr. Mobley worked in energy investment banking for Prudential Securities and ABN Amro Securities. Mr. Mobley also worked in the Principal Investments Group and Energy Finance Group at Enron Capital & Trade Resources from 1995 to 1998. Mr. Mobley is a CFA Charterholder and graduated from New Mexico State University in 1991 and the Wharton School of Business at the University of Pennsylvania in 1995.

*Thomas S. Price, Jr., 54*, has served as Senior Vice President Corporate Development since April 2005. He was Senior Vice President Investor and Government Relations from April 2003 to April 2005, Senior Vice President Corporate Development from 2000 to 2003, Vice President Corporate Development from 1992 to 2000 and a consultant to the Company during the prior three years. He was employed by Kerr-McGee Corporation, Oklahoma City, from 1988 to 1989 and by Flag-Redfern Oil Company from 1984 to 1988. Mr. Price is a member of the board of directors of the Independent Petroleum Association of America, the Oklahoma Independent Petroleum Association, and the New Mexico Oil and Gas Association. Mr. Price graduated from the University of Central Oklahoma in 1983, from the University of Oklahoma in 1989 and from the American Graduate School of International Management in 1992.

*Cathlyn L. Tompkins, 44*, was appointed Senior Vice President Information Technology and Chief Information Officer in January 2006. Ms. Tompkins served as Vice President Information Technology from July 2005 to January 2006. Prior to joining Chesapeake in November 2004 as Director Applications and Programming, Ms. Tompkins spent 20 years in IT management and technical positions at various companies including Devon Energy Corporation, Ocean Energy, Inc., Cabot Oil and Gas Corporation, Price Waterhouse LLP and Shell Oil Company. Ms. Tompkins graduated from the University of Alabama in 1983.

**Table of Contents****SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS****Security Ownership**

The table below sets forth (i) the name and address and beneficial ownership of each person known by management to own beneficially more than 5% of our outstanding common stock, and (ii) the beneficial ownership of common stock of our nominees, directors and executive officers listed in the Summary Compensation Table below and by all directors and executive officers of the Company as a group. Unless otherwise noted, information is given as of the Record Date and the persons named below have sole voting and/or investment power with respect to such shares.

| Beneficial Owner                                | Outstanding    | Common Stock  | Total          | Percent of |
|---|----------------|---------------|----------------|------------|
|   | Shares         | Share         |                |            |
|   | Shares         | Equivalents   | Ownership      | Class      |
| Tom L. Ward                                     | 23,502,881 (a) | 905,365 (b)   | 24,408,246     | 6.39%      |
| 6100 North Western Avenue                       |                |               |                |            |
| Oklahoma City, OK 73118                         |                |               |                |            |
| Aubrey K. McClendon(1)(2)                       | 17,751,300 (c) | 4,671,040 (d) | 22,422,340     | 5.80%      |
| 6100 North Western Avenue                       |                |               |                |            |
| Oklahoma City, OK 73118                         |                |               |                |            |
| FMR Corp.                                       | 19,714,450     | 1,390,365     | 21,104,815 (e) | 5.52%      |
| 82 Devonshire Street                            |                |               |                |            |
| Boston, MA 02109                                |                |               |                |            |
| Frederick B. Whittemore(1)                      | 961,665 (f)    | 92,500 (g)    | 1,054,165      | (3)        |
| Breene M. Kerr(1)                               | 179,875 (h)    | 70,000 (g)    | 249,875        | (3)        |
| Charles T. Maxwell(1)                           | 18,125 (i)     | 120,000 (g)   | 138,125        | (3)        |
| Don Nickles(l)                                  | 15,025         | 25,000 (g)    | 40,025         | (3)        |
| Frank Keating(l)                                | 35,533         |               | 35,533         | (3)        |
| Richard K. Davidson(l)                          | 10,000         |               | 10,000         | (3)        |
| Martha A. Burger(2)                             | 67,301 (j)     | 341,334 (g)   | 408,635        | (3)        |
| Michael A. Johnson(2)                           | 44,149 (j)     | 68,750 (g)    | 112,899        | (3)        |
| Marcus C. Rowland(2)                            | 60,058 (j)     |               | 60,058         | (3)        |
| All directors and executive officers as a group | 19,478,874     | 6,194,924 (k) | 25,673,798     | 6.61%      |

(1) Director

(2) Executive officer

(3) Less than 1%

(a) Includes 1,671,124 shares held by TLW Investments, Inc., an Oklahoma corporation of which Mr. Ward is sole shareholder and chief executive and 21,435 shares held by Mr. Ward's immediate family sharing the same household.

(b) Includes 304,810 shares of common stock issuable upon conversion of 50,000 shares of our 5.0% convertible preferred stock (Series 2003) and 600,555 shares of common stock issuable upon conversion of 10,000 shares of our 4.125% convertible preferred stock.

(c) Includes (i) 13,671 shares held by Chesapeake Investments, an Oklahoma limited partnership of which Mr. McClendon is sole general partner; (ii) 98,188 shares purchased on behalf of the executive officer in the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan; and (iii) 20,265 shares of vested common stock purchased on behalf of Mr. McClendon in the Chesapeake Energy Corporation 401(k) Make-Up Plan.

(d) Includes (i) 3,765,675 shares of common stock which can be acquired on the Record Date or within 60 days thereafter through the exercise of stock options; (ii) 304,810 shares of common stock issuable upon conversion of 50,000 shares of our 5.0% convertible preferred stock (Series 2003); and (iii) 600,555 shares



**Table of Contents**

- of common stock issuable upon conversion of 10,000 shares of our 4.125% convertible preferred stock.
- (e) This information is as of December 31, 2005, as reported in a Schedule 13G/A filed jointly by FMR Corp., Edward C. Johnson 3d and Fidelity Management & Research Company on February 14, 2006. The Schedule 13G/A reports sole power to vote or to direct the vote of 1,505,550 shares by FMR Corp., sole power to dispose of or to direct the disposition of all shares by FMR Corp., Edward C. Johnson 3d and Fidelity Management & Research Company and no shared voting or disposition power. Shares reported include beneficial ownership by the following wholly owned subsidiaries of FMR Corp.: Fidelity Management & Research Company (19,631,565 shares, including share equivalents of 815,032 shares of common stock issuable upon conversion of 210,000 shares of 5% (2005) convertible preferred stock; 192,432 shares of common stock issuable upon conversion of 85,000 shares of 4.5% convertible preferred stock; and 382,901 shares of common stock issuable upon conversion of 149,600 shares of 5.0% (2005B) convertible preferred stock), Fidelity Management Trust Company (86,500 shares), Strategic Advisers, Inc. (1,550 shares), and Fidelity International Limited (1,385,200 shares).
  - (f) Includes 41,750 shares held by Mr. Whittemore as trustee of the Whittemore Foundation.
  - (g) Represents shares of common stock which can be acquired through the exercise of stock options on the Record Date or within 60 days thereafter.
  - (h) Includes 51,000 shares held by Talbot Fairfield II Limited Partnership, of which Mr. Kerr is a general partner.
  - (i) Includes 15,000 shares held by the Maxwell Family Living Trust.
  - (j) Includes shares purchased on behalf of the executive officer in the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan (Martha A. Burger, 21,522 shares; Marcus C. Rowland, 25,004 shares; and Michael A. Johnson, 20,045 shares) and shares of vested common stock purchased on behalf of the executive officer pursuant to the Chesapeake Energy Corporation 401(k) Make-Up Plan (Martha A. Burger, 5,043 shares; Marcus C. Rowland, 8,216 shares; and Michael A. Johnson, 3,291 shares).
  - (k) Includes shares of common stock which can be acquired through the exercise of stock options and the conversion of shares of preferred stock on the Record Date or within 60 days thereafter.

Mr. McClendon's ownership of 50,000 shares of our 5.0% convertible preferred stock (Series 2003) and 10,000 shares of our 4.125% convertible preferred stock represents 5.9% and 11.6%, respectively, of the total shares outstanding under each series of preferred stock. No other directors or executive officers own any of our preferred stock.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and persons who beneficially own more than 10% of the Company's common stock to file reports of ownership and subsequent changes with the Securities and Exchange Commission. Based only on a review of copies of such reports and written representations delivered to the Company by such persons, the Company believes that there were no violations of Section 16(a) by such persons during 2005 except that Sen. Nickles filed one late Form 4 to report his purchase of 1,900 shares of common stock in May 2005.

**EXECUTIVE COMPENSATION**

**Report of the Compensation Committee on Executive Compensation**

*Our Philosophy.* We are responsible for establishing the Company's compensation policies and monitoring the implementation of the Company's compensation system for its executives. Our objective is to develop an executive compensation system that is competitive with the Company's peers and encourages both short-term and long-term performance aligned with shareholders' interests.

## **Table of Contents**

*Our Objectives.* In establishing executive compensation, our objective is to attract, retain and motivate executive officers and key employees with the competence, knowledge and experience to promote the growth and profitability of the Company. We consider the following to be key factors in our determination of executive compensation:

Compensation should be related to performance. We believe that individual compensation should be tied to individual performance and to how well the Company performs financially and operationally.

Compensation should be closely aligned with shareholder interests. We provide employees at all levels with various ways to become shareholders. We grant restricted stock to all employees through our stock compensation plans and allow employees to invest in Company stock through our 401(k) Plans. Further, the matching contributions we make in our 401(k) and 401(k) Make-Up Plans are made in common stock. In addition, the individual employment agreements of our executive officers establish stock ownership requirements for each officer ranging from 10,000 shares to such number of shares having a value equal to not less than 500% of annual base salary and bonuses. We want all employees to think and act like owners of the business.

Compensation should be competitive. We must be conscious of the compensation practices of our peers and new trends in the executive compensation arena. Specifically, we compare our executive compensation levels to those of the eighteen companies in our 5-year performance graph peer group, along with EnCana Corporation, Ultra Petroleum Corporation and Plains Exploration & Production Company.

Fixed and incentive compensation should be properly proportioned. We believe that the proportion of an individual's total compensation that varies with individual and Company performance should increase as the individual's business responsibilities increase.

Compensation should be individually and subjectively evaluated. Individual circumstances and performance should be evaluated independently for each executive officer.

Compensation should be re-evaluated frequently. Currently, we review executive compensation semi-annually and make adjustments as we deem appropriate.

### *Components of Our Compensation System:*

*Base Salary.* The executive officers' base salaries are reviewed and set semi-annually for each individual. The actual amount of each executive's base salary reflects and is adjusted on a subjective basis for such factors as leadership, commitment, attitude, motivational effect, level of responsibility, prior performance of the Company and the individual's contribution to that performance. Although we review the salary levels of executive officers of peer companies to determine whether our executive officers' salaries are reasonable in comparison, we do not specifically target a percentile or range within the peer group compensation levels when establishing our executive officers' salaries.

*Cash Bonuses.* We believe that cash bonuses should be paid to the executive officers based on a subjective evaluation of the performance of the Company and the individual. The Company's financial and operating performance measurements are based on reserves, production, net income, cash flow, successful drilling results, finding and operating costs, general and administrative costs, asset acquisitions and divestitures, risk management activities and common stock price performance. Individual performance factors include leadership, commitment, attitude, motivational effect, level of responsibility, prior experience and extraordinary contributions to the Company. Cash bonuses awarded in 2005 were consistent with the Company's strong financial and operational results and management's successful execution of the Company's acquisition and drilling programs and risk management strategies while continuing to build on the Company's high-quality asset base and maintaining a low cost operating structure.

*Stock-Based Compensation.* Consistent with our compensation philosophy, we believe stock-based compensation provides strong incentives for long-term financial performance that increases shareholder value





## Table of Contents

while rewarding and retaining executive officers. Specifically, we award restricted stock that vests over a period of four years to employees, including executive officers, on a semi-annual basis. We have elected to award restricted stock, rather than stock options, for the following reasons:

The Company could realize a substantial reduction in its annual stock usage rate or burn rate, without a reduction in compensation value transferred to the executives;

A lower annual stock usage rate would reduce the dilutive effect of stock compensation to our shareholders;

The income statement impact of restricted stock is more predictable, and less volatile, than that of stock options; and

Structurally, we believe restricted stock better facilitates long-term employee stock ownership than stock options.

When granting restricted stock to executive officers, the Committee does not consider current holdings of Company securities or the amount and terms of stock options or restricted stock previously granted to the executive officer.

*Policy on Deductibility of Compensation.* Section 162(m) of the Internal Revenue Code limits the tax deduction to \$1 million for compensation paid by a publicly held company to its chief executive officer and each of the Company's four other most highly compensated executive officers, unless certain requirements are met. In structuring executive compensation, the Committee considers the anticipated tax treatment of various arrangements and payments; however, we may choose to award compensation which is not deductible under Section 162(m) if we believe it is consistent with this compensation philosophy and would be in the best interest of the Company and its shareholders. Compensation recognized by the executive officers upon the vesting of restricted stock, as currently structured, is not deductible pursuant to Section 162(m).

*Employment Agreements.* We maintain employment agreements with our executive officers, the material terms of which are described under Employment Agreements. We review the terms of the agreements at least annually, generally focusing on the permitted activities allowed for our executive officers, the competitiveness and adequacy of the severance arrangements and the competitiveness and value of the perquisites and other personal benefits provided to such officers.

On February 10, 2006, effective with his resignation, the Fourth Amended and Restated Employment Agreement dated July 1, 2005 between Tom L. Ward and Chesapeake Energy Corporation terminated. The agreement provided for Mr. Ward's full-time employment as Chesapeake's President and Chief Operating Officer of the Company. In accordance with the terms of the agreement, upon Mr. Ward's resignation, neither the Company nor Mr. Ward has any further obligations thereunder including, without limitation, any obligation of the Company to provide any further payments or benefits to Mr. Ward after the effective date of such resignation, except support staff and aircraft usage extended during the consulting period, as provided in the resignation agreement. Please refer to page 32 of this proxy statement for a full discussion of the terms of Mr. Ward's resignation agreement under Employment Agreements, Termination of Employment and Change of Control Arrangements.

*Compensation of the Chief Executive Officer.* The compensation of our chief executive officer, who is the principal executive officer of the Company, is determined in the same manner as the compensation for other executive officers of the Company. The CEO's current employment agreement, entered into effective July 1, 2005, provides for a minimum annual base salary of \$950,000 which represents an 8.0% increase over his year-end 2004 salary of \$880,000. In addition, his 2005 cash bonuses represented an increase of 18% over 2004 levels. The cash bonuses and restricted stock granted to our CEO were based on the subjective evaluation of the Company's growth and profitability and the contributions of our CEO to that growth. We determined that the

**Table of Contents**

increase in overall compensation for the CEO during 2005 was appropriate given the Company's strong performance in 2005, including the achievement of the following:

92% increase in common stock price from year-end 2004 to year-end 2005, not including the reinvestment of dividends (a 2,280% increase from our IPO in February 1993);

64% increase in net income per fully diluted common share from 2004 to 2005;

73% increase in operating cash flow from 2004 to 2005;

30% increase in average daily oil and natural gas production from 2004 to 2005;

53% increase in estimated proved oil and natural gas reserves from 2004 to 2005;

72% increase in annual revenues from 2004 to 2005;

More than doubled our market capitalization and enterprise value to \$14 billion and \$20 billion, respectively;

Most active driller of new wells in the U.S. in 2005, drilling 902 operated wells and participating in another 1,066 non-operated wells; and

America's top performing stock during the past seven years according to Zacks Investment Research (based on stock price performance from December 31, 1998 to December 31, 2005 of nearly 3,000 companies tracked by Zacks with market capitalization over \$50 million on December 31, 1998).

In addition to leading the Company to outstanding financial and operational achievements in 2005, our CEO has established a strong record in the areas of employee commitment and retention, community support, governmental relations, environmental stewardship and technology use and innovation.

*Internal Pay Equity.* In performing our semi-annual review of executive compensation, we review a spreadsheet showing internal pay equity within the Company. This spreadsheet shows the relationship between the base salary, cash bonus and equity compensation of our upper management levels (i.e., the CEO, named executive officers, executive vice presidents, senior vice presidents, vice presidents and our senior managers) for the prior three years. We believe that the relationship between CEO compensation and the compensation of our executives is reasonable and in line with their respective job duties and responsibilities. We additionally take into consideration the fact that our CEO is the co-founder of our Company which we believe further differentiates him from the other executives and from the CEOs of our peers.

*Conclusion.* Based on our review of the Company's compensation system and policies in 2005, we have determined that the total compensation packages of the CEO and other named executive officers, in the aggregate, are reasonable and not excessive. The changes to the CEO's and named executive officers' compensation have been disclosed in our current reports on Form 8-K filed with the SEC on June 13, 2005 and December 22, 2005 and the related employment agreements are reflected as exhibits to our Form 10-K for the year ended December 31, 2005. In addition, we believe that the executive compensation arrangements are reflective of the exceptional growth and performance that the Company generated in 2005 and the contributions of the executive officers to those results.

Members of the Compensation Committee:

*Frederick B. Whittemore, Chairman*

*Frank A. Keating*

**Table of Contents****Summary Compensation Table**

The following table sets forth for the years ended December 31, 2005, 2004 and 2003 the compensation earned in each period by (i) our chief executive officer and (ii) the four other most highly compensated executive officers.

| Name and Principal Position  | Year | Annual Compensation |              |                              | Long Term Compensation     |  | All                   |
|--|------|---------------------|--------------|------------------------------|----------------------------|--|-----------------------|
|  |      | Salary              | Bonus        | Other Annual Compensation(a) | Restricted Stock Awards(b) | Securities Underlying Options (# of Shares)(c) | Other Compensation(d) |
| Aubrey K. McClendon<br>Chairman of the Board and<br>Chief Executive Officer                        | 2005 | \$ 925,000          | \$ 1,326,000 | \$ 1,016,710                 | \$ 14,364,800              |  | \$ 322,590            |
|  | 2004 | \$ 840,000          | \$ 1,127,500 | \$ 623,395                   | \$ 8,045,000               |  | \$ 298,254            |
|  | 2003 | \$ 737,500          | \$ 877,500   | \$ 209,579                   |                            | 1,375,000                                      | \$ 243,015            |
| Tom L. Ward (1)<br>President and Chief Operating Officer   | 2005 | \$ 925,000          | \$ 1,326,000 | \$ 983,732                   | \$ 14,364,800              |  | \$ 322,590            |
|  | 2004 | \$ 840,000          | \$ 1,127,500 | \$ 665,984                   | \$ 8,045,000               |  | \$ 298,254            |
|  | 2003 | \$ 737,500          | \$ 877,500   | \$ 209,637                   |                            | 1,375,000                                      | \$ 243,015            |
| Marcus C. Rowland<br>Executive Vice President Finance and<br>Chief Financial Officer               | 2005 | \$ 555,000          | \$ 756,000   | \$ 53,441                    | \$ 1,646,875               |  | \$ 189,090            |
|  | 2004 | \$ 437,500          | \$ 576,000   | (e)                          | \$ 926,700                 |  | \$ 169,379            |
|  | 2003 | \$ 362,500          | \$ 387,000   | (e)                          |                            | 160,000  | \$ 113,247            |
| Martha A. Burger<br>Treasurer and Senior Vice<br>President Human Resources                         | 2005 | \$ 452,500          | \$ 526,000   | (e)                          | \$ 960,560                 |  | \$ 141,165            |
|  | 2004 | \$ 352,500          | \$ 392,000   | (e)                          | \$ 489,220                 |  | \$ 114,879            |
|  | 2003 | \$ 287,500          | \$ 236,500   | (e)                          |                            | 85,000   | \$ 80,875             |
| Michael A. Johnson<br>Senior Vice President Accounting,<br>Controller and Chief Accounting Officer | 2005 | \$ 340,000          | \$ 291,000   | (e)                          | \$ 722,600                 |  | \$ 93,540             |
|  | 2004 | \$ 267,500          | \$ 221,000   | (e)                          | \$ 386,160                 |  | \$ 75,967             |
|  | 2003 | \$ 217,500          | \$ 157,500   | (e)                          |                            | 65,000   | \$ 56,549             |

(1) Mr. Ward resigned as a director, officer and employee effective February 10, 2006.

- (a) Includes (i) the cost of personal benefits provided by the Company, including for 2005, 2004 and 2003, respectively, personal accounting support (\$459,711, \$341,540 and \$106,347 for Mr. McClendon; \$422,456, \$307,917 and \$106,385 for Mr. Ward; and \$36,890 in 2005 for Mr. Rowland); (ii) reimbursement in 2005 by the Company of fees paid by the executive in 2004 for notification filings made pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (\$90,000 for Mr. McClendon and \$215,000 for Mr. Ward); and (iii) personal use of Company aircraft (\$449,959, \$252,748 and \$75,000 for Mr. McClendon and \$330,024, \$329,815 and \$75,000 for Mr. Ward). The value of the personal use of Company aircraft is based on the incremental cost to the Company determined by the number of flight hours multiplied by the hourly variable operating costs. The variable operating costs include the cost of fuel, trip-related maintenance, crew travel expenses, on-board catering, landing fees and trip-related parking/hangar costs. Since the company-owned aircraft are used primarily for business travel, we do not include the fixed costs that do not change based on the usage, such as purchase costs and maintenance costs not related to trips. Pursuant to the provisions of their employment agreements, Messrs. McClendon and Ward are required to use Company aircraft for all business and personal travel in the Western Hemisphere. In addition, Mr. Ward's resignation agreement allows him to use fractional ownership interests in Company aircraft for personal use for a period of six months after his resignation date, or until August 10, 2006.
- (b) The value shown is based on the closing price of the Company's common stock on the date of the award. Restricted stock awards vest ratably over four years from the date of award. No dividends are accrued or paid on restricted stock awards until vested.

As of December 31, 2005, the aggregate number of shares of restricted stock held and the value thereof based on the closing price of the Company's common stock as of December 31, 2005 were as follows: each of Messrs. McClendon and Ward 1,141,875 shares, \$36,231,694; Mr. Rowland 131,250 shares, \$4,164,563; Ms. Burger 73,500 shares, \$2,332,155; and Mr. Johnson 56,250 shares, \$1,784,813.

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- (c) There were no stock options granted to executive officers in 2005 and 2004.
- (d) Represents our matching contributions to the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan and the Chesapeake Energy Corporation 401(k) Make-Up Plan and premiums paid by the Company for term life and

**Table of Contents**

disability insurance. In 2005, such amounts were \$14,000, \$304,750 and \$3,840 for each of Messrs. McClendon and Ward; \$18,000, \$167,250 and \$3,840 for Mr. Rowland; \$18,000, \$119,625 and \$3,540 for Ms. Burger; and \$14,000, \$76,000 and \$3,540 for Mr. Johnson, respectively.

- (e) Perquisites and other personal benefits, securities or property did not exceed the lesser of \$50,000 or 10% of the executive officer's salary and bonus during the year.

**Aggregated Option Exercises in 2005 and December 31, 2005 Option Values**

No stock options were granted to executive officers in 2005. The following table sets forth information about options exercised by the named executive officers during 2005 and the unexercised options to purchase common stock held by them at December 31, 2005.

| Name                   | Shares<br>Acquired<br>On Exercise | Value<br>Realized(a) | Number of Securities<br>Underlying Unexercised<br>Options at 12/31/05 |               | Value of Unexercised<br>In-the-Money<br>Options at 12/31/05(b) |               |
|------------------------|-----------------------------------|----------------------|---|---------------|--|---------------|
|                        |                                   |                      | Exercisable   | Unexercisable | Exercisable  | Unexercisable |
| Aubrey K. McClendon(c) | 800,960                           | \$ 15,803,638        | 3,581,380   | 908,910       | \$ 91,921,177  | \$ 21,596,716 |
| Tom L. Ward (d)        |                                   | \$                   | 6,906,898   | 908,910       | \$ 189,931,059   | \$ 21,596,716 |
| Marcus C. Rowland      | 124,240                           | \$ 2,294,026         | 22,500  | 104,998       | \$ 576,450   | \$ 2,492,102  |
| Martha A. Burger       | 22,465                            | \$ 535,693           | 330,084   | 54,916        | \$ 8,901,369   | \$ 1,295,131  |
| Michael A. Johnson     | 12,500                            | \$ 259,150           | 61,250  | 41,250        | \$ 1,552,738   | \$ 969,963    |

- (a) Represents amounts determined by subtracting the aggregate exercise price of such options from the aggregate market value of the underlying shares of common stock on the exercise date.
- (b) At December 31, 2005, the closing price of a share of our common stock on the New York Stock Exchange was \$31.73. In-the-money options are stock options with respect to which the market value of the underlying shares of common stock exceeded the exercise price at December 31, 2005. The values shown were determined by subtracting the aggregate exercise price of such options from the aggregate market value of the underlying shares of common stock on December 31, 2005.
- (c) The 800,960 shares acquired by Mr. McClendon and 16,365 shares acquired by Ms. Burger upon exercise of stock options are part of each executive's current common stock holdings.
- (d) Mr. Ward exercised all 7,815,808 of his outstanding stock options on March 14, 2006.

**Employment Agreements, Termination of Employment and Change of Control Arrangements***Aubrey K. McClendon*

We have an employment agreement with Mr. McClendon which provides, among other things, for an annual base salary of not less than \$950,000, bonuses at the discretion of the Board of Directors (through its Compensation Committee), eligibility for equity awards under the Company's stock compensation plans and benefits, including club membership and personal accounting support. For safety, security and efficiency, Mr. McClendon is required to use aircraft owned or leased by the Company for business and personal use in the Western Hemisphere and is not required to reimburse the Company for any costs related to such use. In addition, Mr. McClendon's immediate family members may use such Company aircraft for their personal use to the same extent. When a family member travels without Mr. McClendon, he is required to reimburse the Company for the variable costs of such use.

The employment agreement with Mr. McClendon has a term of five years commencing July 1, 2005, which term is automatically extended for one additional year on each January 31 unless the Company provides 30 days prior notice of non-extension. In addition, for each calendar year during which the employment agreement is in effect, Mr. McClendon is required to hold shares of the Company's common stock having an aggregate investment value equal to 500% of his annual base salary and bonus.

The Company may terminate its employment agreement with Mr. McClendon at any time without cause; however, upon such termination he is entitled to continue to receive Base Compensation (defined as salary equal

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**Table of Contents**

to his base salary on the date of termination plus annual bonus compensation equal to the bonus compensation he received during the twelve month period preceding the termination date) and benefits including office space, secretarial and accounting support and company aircraft usage for the balance of the contract term.

The employment agreement further provides that if, during the term of the agreement, there is a change of control and within three years thereafter (a) the agreement expires; (b) the agreement is not extended and Mr. McClendon resigns within one year after the non-extension; (c) he is terminated other than for cause, death or incapacity; (d) he resigns as a result of (i) a change in his duties or title, (ii) a reduction in his compensation, (iii) a required relocation more than 25 miles from his then current place of employment, or (iv) a default by the Company under the agreement; (e) the agreement has not been assumed by any successor to or parent of the Company; or (f) he has agreed to remain employed by the Company for a period of three months to assist in the transition and thereafter resigns, then Mr. McClendon will be entitled to a severance payment in an amount equal to three times his Base Compensation, plus three times the value of his benefits provided during the preceding twelve months, plus a gross-up amount to be paid with respect to any excise or income taxes or penalties imposed on the severance payment. Change of control is defined in this agreement to include:

- (1) a person acquiring beneficial ownership of 20% or more of the Company's outstanding common stock or the voting power of the Company's existing voting securities unless one of the circumstances described in clause 3(i), (ii) and (iii) below exists or it is an acquisition directly from the Company or an acquisition by the Company or a Company employee benefit plan;
- (2) a majority of the members of the Incumbent Board is replaced by directors who were not nominated or elected by the Incumbent Board (the current directors and directors later nominated or elected by a majority of such directors are referred to as the Incumbent Board);
- (3) the consummation of a business combination such as a reorganization, merger, consolidation or sale of all or substantially all of the Company's assets unless following such business combination (i) the persons who beneficially owned the Company's common stock and voting securities immediately prior to the business combination beneficially own more than 60% of such securities of the corporation resulting from the business combination in substantially the same proportions, (ii) no person beneficially owns 20% or more of such securities of the corporation resulting from the business combination unless such ownership existed prior to the business combination, or (iii) a majority of the members of the board of directors of the corporation resulting from the business combination were members of the Incumbent Board at the time of the execution or approval of the business combination agreement; and
- (4) the approval by the shareholders of a complete liquidation or dissolution of the Company.

If Mr. McClendon becomes incapacitated, as determined by the Company's Board of Directors, and is unable to perform his duties set out in the employment agreement for a period of four consecutive months, the Board may terminate his services. In the event such a termination should occur, Mr. McClendon is entitled to receive compensation and benefits through the remaining term of the agreement. If Mr. McClendon dies during the term of the agreement, the Company is obligated to continue payments of base salary for twelve months after the date of his death.

In the event any payment by the Company to Mr. McClendon is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code or any interest or penalties related to such excise tax, he will be entitled to receive a gross-up payment from the Company. The gross-up payment will be equal to the amount such that after payment of all taxes (including penalties and interest on the taxes) on the gross-up payment, Mr. McClendon will retain an amount of the gross-up payment equal to the excise tax imposed.

Mr. McClendon is prohibited from engaging in various activities outside his employment with the Company without the approval of the Board of Directors. His employment agreement also provides for a six-month non-competition period after the termination of his employment and prohibits disclosure of confidential information



## **Table of Contents**

for a one-year period following the termination of the agreement. In addition, the agreement contains non-solicitation restrictions with respect to employees, contractors, customers, vendors and subcontractors.

### *Tom L. Ward*

On February 9, 2006, Tom L. Ward, our former President and Chief Operating Officer and a co-founder of the Company, resigned as a director, officer and employee of the Company. Our Board of Directors accepted Mr. Ward's resignation effective February 10, 2006 and approved a proposed resignation agreement with Mr. Ward in recognition of his significant contributions to the Company, his participation in the founding and success of the Company and his agreement to assist in the transition of his duties for a six-month period after his resignation. The Board authorized Mr. McClendon to complete negotiations of the agreement with Mr. Ward. Mr. Ward's resignation agreement was included as Exhibit 10.2.5 of our current report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2006. Upon his resignation, his employment agreement with the Company, which provided for Mr. Ward's full-time employment as Chesapeake's President and Chief Operating Officer and was substantially identical to Mr. McClendon's employment agreement described above, terminated.

The resignation agreement provided for Mr. Ward's resignation from his employment and directorship with Chesapeake and his positions as an officer, director and/or manager of any Chesapeake subsidiary. In addition, Mr. Ward agreed to act as a consultant to Chesapeake for a period of six months from the effective date of the resignation agreement (the Consulting Period) to assist in the transition of his responsibilities.

During the Consulting Period, Mr. Ward receives no cash compensation but the Company provides him support staff for personal administrative and accounting services and the use of the fractional ownership interests of the Company's aircraft in accordance with historical practices. Mr. Ward is permitted by the resignation agreement to employ support staff personnel that report directly to him.

The resignation agreement further provided for the immediate vesting of all of Mr. Ward's unvested stock options and restricted stock on February 10, 2006. As a result of such vesting, options to purchase 724,615 shares of Chesapeake's common stock at an average exercise price of \$8.01 per share and 1,291,875 shares of restricted common stock became immediately vested. The estimated Black-Scholes value of these stock options was approximately \$15.7 million and the fair market value of the previously restricted common stock was approximately \$38.3 million as of February 10, 2006. Mr. Ward exercised all of his outstanding stock options to purchase 7,815,808 shares of common stock on March 14, 2006.

The resignation agreement requires Mr. Ward to notify the Company if he acquires or enters into an agreement to acquire, directly or indirectly, any oil and gas interest or business that violates his employment agreement. If he should acquire a company or package of properties that includes interests covered by the non-competition provisions of his employment agreement and the allocated value of such interests is less than 25% of the total purchase price, the Company's sole remedy will be the right to purchase the interests at Mr. Ward's cost. The resignation agreement also included a release of claims by Mr. Ward and the Company and indemnification by Mr. Ward.

### *Other Executive Officers*

The Company has an employment agreement with Mr. Rowland that is in effect through September 30, 2006. It provides for an annual base salary of not less than \$375,000. Mr. Rowland's employment agreement requires him to hold not less than 25,000 shares of the Company's common stock throughout the term of the agreement. Mr. Rowland's agreement provides for bonuses at the discretion of the Compensation Committee of the Board of Directors and eligibility for stock-based compensation and benefits, including an automobile allowance, club membership and personal accounting support. Mr. Rowland's employment agreement permits

## **Table of Contents**

him to continue to conduct oil and gas activities individually and through various related or family-owned entities, but prohibits him from acquiring, attempting to acquire or aiding another person in acquiring an interest in oil and gas exploration, development or production activities other than certain permitted activities without the Company's approval.

The Company also has employment agreements with Mr. Johnson and Ms. Burger in effect through September 30, 2006, with minimum annual base salaries of \$230,000 for Mr. Johnson and \$300,000 for Ms. Burger. Each agreement provides that the executive officer is eligible for bonuses, stock-based compensation and other benefits. The agreements require each executive to acquire and continue to hold at least 10,000 shares of the Company's common stock.

As a result of Mr. Ward's resignation, Steven C. Dixon was appointed Executive Vice President Operations and Chief Operating Officer effective February 13, 2006. The Company has an employment agreement with Mr. Dixon in effect through September 30, 2006 which provides for a minimum annual base salary of \$325,000 and eligibility for bonuses, stock-based compensation and other benefits. Mr. Dixon's agreement requires him to acquire and continue to hold at least 10,000 shares of the Company's common stock.

The Company may terminate any of its employment agreements with Messrs. Rowland, Dixon and Johnson and Ms. Burger at any time without cause; however, upon such termination each is entitled to continue to receive base compensation (defined as the executive's base salary on the date of termination) and benefits for 180 days.

The employment agreements for Messrs. Rowland, Dixon and Johnson and Ms. Burger further provide that if, during the term of the agreement, there is a change of control, the executive officer will be entitled to a severance payment in an amount equal to 200% of the sum of (i) the executive officer's base salary as of the date of the change of control and (ii) annual bonus compensation paid to the executive during the twelve month period immediately prior to the change of control. The right to such compensation is subject to the executive officer's continued compliance with the terms of the employment agreement. The definition of change of control in these agreements is the same as the definition in Mr. McClendon's employment agreement.

## **Founder Well Participation Program**

On June 10, 2005, our shareholders approved the Founder Well Participation Program (the "FWPP") which permits the Company's two founders, Messrs. McClendon and Ward, to continue participating as working interest owners in the wells that the Company drills in the future. The FWPP is a continuation of the well participation program previously administered through the founders' employment agreements and initiated by the Company in connection with its initial public offering in February 1993. The FWPP fosters and promotes the development and execution of the Company's business by: (a) retaining and motivating the principal executive officers who founded the Company; (b) aligning the financial rewards and risks of the founders with the Company more effectively than overriding royalty, carried interest or other performance incentive programs maintained by many of the Company's peers; and (c) imposing on the founders the same risk incurred by the Company in its core operations. The FWPP became effective on July 1, 2005 in conjunction with the effectiveness of amendments to the founders' employment agreements eliminating the well participation rights under the agreements. Messrs. McClendon and Ward have participated in all wells drilled by the Company since its initial public offering in February 1993, except during the five quarters from January 1, 1999 to March 31, 2000.

Under the FWPP, a founder is permitted to participate in all of the Program Wells, as defined in the FWPP, spudded by or on behalf of the Company during each calendar year. In order to participate, at least 30 days prior to the beginning of each year the founder must provide written notice to the members of the Compensation Committee of such founder's election to participate in the FWPP and the percentage working interest which the founder proposes to participate with during the year. The founder's working interest percentage may not exceed a 2.5% working interest in a well and is not effective for any well where the Company's working interest after elections by the founders to participate would be reduced to below 12.5%. If the founder fails to provide notice of

## Table of Contents

his election to participate or of the working interest percentage, the amount of the working interest percentage for the relevant calendar year will be deemed to be equal to the working interest percentage for the immediately preceding calendar year.

The FWPP is administered and interpreted by the Compensation Committee of the Board. In addition, the Board, in its sole discretion, may take any action with respect to the FWPP that would otherwise be the responsibility of or delegated to the Compensation Committee. The Board of Directors has the right to suspend or terminate the FWPP after December 31, 2015 by providing written notice of termination to the founders one year before the effective date of such termination. Shareholder approval is required for any amendment to the FWPP that increases the maximum working interest percentage applicable to a founder or any amendment, which in the opinion of counsel to the Company, requires shareholder approval under any federal or state law or any regulations or rules promulgated thereunder. A founder's right to participate in the FWPP during any calendar year will terminate on the earlier of (i) December 31 of such year; (ii) the termination of the founder's employment by the Company for cause or death; or (iii) the expiration or termination of any and all covenants not to compete subsequent to the termination of the founder for any reason not included in the foregoing clause (ii). In accordance with these provisions, Mr. Ward's participation in the FWPP will expire on August 10, 2006 when the non-compete covenants in his resignation agreement expire. The right to participate in the FWPP can only be assigned by a founder to a Founder Affiliate designated as such in accordance with the FWPP.

A founder's participation in the FWPP is independent of the other founder's participation in the FWPP. A founder's working interest percentage cannot be changed during any calendar year without the prior approval of the Compensation Committee. Participation by a founder under the FWPP is conditioned on the founder's participation in each Program Well spudded during the calendar year in an amount equal to the greater of the elected working interest percentage or the prior interest owned by the founder in the drilling unit for such Program Well. Under the FWPP, each founder: (a) agrees to execute and deliver any documents reasonably requested by the Company in connection with the FWPP; (b) appoints the Company as such founder's agent and attorney-in-fact to execute and deliver such documents if such founder fails or refuses to execute such documents; (c) agrees to pay all joint interest billings immediately on receipt of the Company's invoice issued by the Company in the ordinary conduct of its business; and (d) agrees to prepay to the Company amounts attributable to the founder's interest in a Program Well operated by a third party to the extent that a Company Entity (as defined in the FWPP) is required to prepay any costs in connection with such Program Well.

The amount paid by each founder for the acreage assigned in connection with his participation in the FWPP is computed as of the first day of each calendar year and is equal to the following amount computed on a per acre basis: (a) all direct third party costs paid by the Company Entities and capitalized in the appropriate accounting pool in accordance with the Company's accounting procedures (including capitalized interest, leasehold payments, acquisition costs, landman charges and seismic charges); divided by (b) the acreage in the applicable pool. The acreage charge amount is recomputed as of the first day of each calendar year by the Company and submitted to the Compensation Committee for approval. All other costs for Program Wells are billed in accordance with the Company's accounting procedures applicable to third party participants pursuant to any applicable joint operating agreement or exploration agreement relating to a particular Program Well. Notwithstanding anything to the contrary, in each case the founder's participation in a Program Well will be on no better terms than the terms agreed to by unaffiliated third party participants in connection with the participation in such Program Well or similar wells operated by the Company Entities.

**Table of Contents****COMPANY PERFORMANCE**

The following graph compares the performance of our common stock to the S&P 500 Stock Index and to a group of peer companies selected by the Company for the past five years. The graph assumes the investment of \$100 on December 31, 2000 and the reinvestment of all dividends. The graph shows the value of the investment at the end of each year.

| Measurement Date  |                                     |                  |                  | S&P 500        |
|-------------------|-------------------------------------|------------------|------------------|----------------|
|                   | Chesapeake<br>Energy<br>Corporation | Peer<br>Group(a) | Peer<br>Group(b) | Stock<br>Index |
| December 31, 2000 | \$ 100                              | \$ 100           | \$ 100           | \$ 100         |
| December 31, 2001 | \$ 65                               | \$ 82            | \$ 78            | \$ 88          |
| December 31, 2002 | \$ 77                               | \$ 86            | \$ 81            | \$ 69          |
| December 31, 2003 | \$ 137                              | \$ 112           | \$ 101           | \$ 88          |
| December 31, 2004 | \$ 168                              | \$ 155           | \$ 137           | \$ 98          |
| December 31, 2005 | \$ 326                              | \$ 247           | \$ 222           | \$ 103         |
| CAGR (c)          | 26.7%                               | 20.0%            | 17.3%            | 0.6%           |

**Table of Contents**

The following graph compares the performance of our common stock to the S&P 500 Stock Index and to a group of peer companies for the past twelve years. The graph assumes an investment of \$100 on December 31, 1993 and the reinvestment of all dividends. The graph shows the value of the investment at the end of each year.

| Measurement Date  | Chesapeake<br>Energy<br>Corporation | Peer<br>Group(a) | S&P 500<br>Stock<br>Index |
|-------------------|-------------------------------------|------------------|---------------------------|
| December 31, 1993 | \$ 100                              | \$ 100           | \$ 100                    |
| December 31, 1994 | \$ 663                              | \$ 98            | \$ 101                    |
| December 31, 1995 | \$ 2,100                            | \$ 122           | \$ 139                    |
| December 31, 1996 | \$ 5,270                            | \$ 152           | \$ 171                    |
| December 31, 1997 | \$ 1,442                            | \$ 149           | \$ 229                    |
| December 31, 1998 | \$ 180                              | \$ 104           | \$ 294                    |
| December 31, 1999 | \$ 457                              | \$ 123           | \$ 356                    |
| December 31, 2000 | \$ 1,947                            | \$ 209           | \$ 323                    |
| December 31, 2001 | \$ 1,271                            | \$ 171           | \$ 285                    |
| December 31, 2002 | \$ 1,501                            | \$ 180           | \$ 222                    |
| December 31, 2003 | \$ 2,668                            | \$ 234           | \$ 286                    |
| December 31, 2004 | \$ 3,279                            | \$ 324           | \$ 317                    |
| December 31, 2004 | \$ 6,350                            | \$ 518           | \$ 332                    |
| CAGR (c)          | 41.3%                               | 14.7%            | 10.5%                     |

- (a) The 2005 peer group is comprised of Anadarko Petroleum Corporation, Apache Corporation, Burlington Resources, Inc., Cabot Oil & Gas Corporation, XTO Energy, Inc., Devon Energy Corporation, EOG Resources, Inc., Forest Oil Corporation, Kerr-McGee Corporation, Newfield Exploration Company, Noble Energy, Inc., Occidental Petroleum Corporation, Pioneer Natural Resources Company, Pogo Producing Co., Quicksilver Resources, Inc., Range Resources Corporation, Southwestern Energy Company and St. Mary Land & Exploration Company. Vintage Petroleum, Inc. is not included in the peer group in 2005 due to its acquisition by Occidental Petroleum Corporation in 2005. Quicksilver, Southwestern and St. Mary are small- to mid-cap exploration and production companies that we have added to our peer group due to their increasing presence in several of our gas resource plays. We added Range to our peer group due to its presence in Appalachia nearby to the Columbia Natural Resources properties we acquired in November 2005.

**Table of Contents**

(b) The 2004 peer group is comprised of Anadarko Petroleum Corporation, Apache Corporation, Burlington Resources, Inc., Cabot Oil & Gas Corporation, XTO Energy, Inc., Devon Energy Corporation, EOG Resources, Inc., Forest Oil Corporation, Kerr-McGee Corporation, Newfield Exploration Company, Noble Energy, Inc., Pioneer Natural Resources Company and Pogo Producing Co. Vintage Petroleum, Inc. is not included in the peer group due to its acquisition by Occidental Petroleum Corporation in 2005.

(c) CAGR (compounded annual growth rate)

**CERTAIN TRANSACTIONS AND RELATIONSHIPS**

*Oil and Gas Operations.* Messrs. McClendon and Ward, our CEO and former COO, have participated in substantially all of our oil and gas wells under the Founder Well Participation Program ( FWPP) as more completely described on pages 33-34. The Company bills Messrs. McClendon and Ward for their share of leasehold, drilling, completion, equipping and operating costs monthly at the same time it bills other joint working interest owners. From January 1, 2005 to December 31, 2005, the Company billed Mr. McClendon \$72,422,577 and Mr. Ward \$72,453,882 for such costs. Messrs. McClendon and Ward paid each invoice promptly upon receipt. There was no amount owing by either of them for joint interest billing invoices at January 1, 2005 or at any month-end in 2005. Mr. Ward's right to participate in the FWPP terminates at the end of his six-month consulting period on August 10, 2006.

*Securities Issuances.* In 2005, Messrs. McClendon and Ward each purchased the Company's common stock, as indicated below, at the same price and subject to the same terms and conditions as such stock was purchased by the public or investors in conjunction with public offerings of the Company's common stock:

| Executive Officer   | Date of Purchase   | Shares Purchased |                 |
|---------------------|--------------------|------------------|-----------------|
|                     |                    | Common           | Share Price Per |
| Aubrey K. McClendon | September 14, 2005 | 305,623          | \$ 32.72        |
| Tom L. Ward         | September 14, 2005 | 305,623          | \$ 32.72        |
| Aubrey K. McClendon | December 13, 2005  | 750,000          | \$ 31.46        |
| Tom L. Ward         | December 13, 2005  | 750,000          | \$ 31.46        |

*Other Relationships.* Mr. Ward's brother, Ronnie D. Ward, has served as the Company's Vice President Land for the Company's Northern Division since July 2005 and served as Northern Mid-Continent Land Manager from 1994 to July 2005. He earned an aggregate salary and bonus of \$402,500 in 2005. The Company is a significant employer in Oklahoma City and we seek to fill positions with qualified employees, whether or not they are related to our executive officers or directors. We compensate employees who have such relationships within what we believe to be the current market rate for their position and provide benefits consistent with our policies that apply to all employees.

**Table of Contents****INDEPENDENT ACCOUNTANTS**

PricewaterhouseCoopers LLP, or its predecessor firms, has served as our independent accountants since our initial public offering in 1993, and the Audit Committee has selected it to serve as our independent registered public accounting firm for 2006. Representatives of PricewaterhouseCoopers LLP are expected to attend the meeting. They will have an opportunity to make a statement if they desire to do so, and will be available to respond to shareholders' questions.

Aggregate fees for professional services rendered for the Company by PricewaterhouseCoopers LLP in 2005 and 2004 were:

|               | 2005                | 2004                |
|---------------|---------------------|---------------------|
| Audit         | \$ 1,476,860        | \$ 1,322,000        |
| Audit-related | 36,500              | 81,000              |
| Tax           | 8,651               |                     |
| All other     |                     | 2,500               |
| <b>Total</b>  | <b>\$ 1,522,011</b> | <b>\$ 1,405,500</b> |

**Audit Fees**

Fees for the 2005 audit and quarterly reviews, as well as the preparation of comfort letters, consents and assistance with and review of documents filed with the SEC in 2005, were \$1,476,860, of which \$884,810 related to the annual audit, \$75,000 related to interim reviews, and \$517,050 related to services provided in connection with our issuance of senior notes, preferred stock and common stock. Fees for the 2004 audit and quarterly reviews, as well as the preparation of comfort letters, consents and assistance with and review of documents filed with the SEC in 2004, were \$1,322,000, of which \$920,000 related to the annual audit, \$48,000 related to interim reviews, and \$354,000 related to services provided in connection with our issuance of senior notes, preferred stock and common stock.

**Audit-Related Fees**

Fees for the audit of employee benefit plans in 2005 and 2004 were \$36,500 and \$33,000, respectively. Additionally, audit-related fees in 2004 included \$48,000 for assistance with and documentation of the Company's internal controls over financial reporting.

**Tax Fees**

Aggregate fees billed for tax-related services in 2005 were \$8,651. PricewaterhouseCoopers LLP rendered no tax-related services in 2004.

**All Other Fees**

In 2004, PricewaterhouseCoopers LLP provided the Company with an accounting research information service for a fee of \$2,500.

The Audit Committee is required to pre-approve all audit and non-audit services provided by the Company's independent accountants. In addition to separately approved services, the Audit Committee's pre-approval policy provides for pre-approval of specifically described audit and non-audit services and related fee levels on an annual basis. The policy authorizes the Committee to delegate to one or more of its members pre-approval authority with respect to permitted services. The Audit Committee reviews the services performed pursuant to its pre-approval policy at its next scheduled quarterly meeting.

**Table of Contents**

**SHAREHOLDER PROPOSALS**

At each annual meeting, the Board of Directors submits to shareholders its nominees for election as directors and may submit other matters to the shareholders for action. Shareholders also may submit proposals for inclusion in the Company's proxy material. These proposals must meet the shareholder eligibility and other requirements of the Securities and Exchange Commission. In order to be included in proxy material for our 2007 annual meeting, a shareholder's proposal must be received not later than December 29, 2006 by the Company at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118, Attention: Ms. Jennifer M. Grigsby, Secretary.

In addition, the Bylaws provide that in order for business to be brought before a shareholders' meeting by a shareholder, the shareholder must deliver written notice to the Company not less than 60 nor more than 90 days prior to the date of the meeting. The notice must state the shareholder's name, address and number and class of shares beneficially owned by the shareholder, and briefly describe the business to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest of the shareholder in the proposal.

The Bylaws further provide that, notwithstanding the foregoing notice requirements, in the event that less than 70 days notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice of a shareholder proposal to be timely must be received no later than the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure thereof was made, whichever occurred first.

Our annual meeting of shareholders is generally held on the second Friday of June. Assuming that our 2007 annual meeting is held on schedule, we must receive notice of your intention to introduce an item of business at that meeting no earlier than March 10, 2007 and no later than April 9, 2007. The chairman of the meeting may refuse to allow the transaction of any business not made in compliance with the foregoing procedures or other requirements of rules under the Securities Exchange Act of 1934.

**OTHER MATTERS**

Our management does not know of any matters to be presented at the meeting other than those set forth in the Notice of Annual Meeting of Shareholders. However, if any other matters properly come before the meeting, the person named in the enclosed proxy intends to vote the proxies in accordance with his best judgment.

BY ORDER OF THE BOARD OF DIRECTORS

Jennifer M. Grigsby

Secretary

April 28, 2006



**Table of Contents**

**EXHIBIT A**

**CHESAPEAKE ENERGY CORPORATION**

**AMENDED AND RESTATED LONG TERM INCENTIVE PLAN**

**1. PURPOSE**

**Section 1.1 *Background.*** ~~The original Long Term Incentive Plan was approved by shareholders on June 10, 2005 (the Initial Plan ) and is being amended and restated to increase the number of common shares authorized for issuance and to make other changes as provided herein. The Initial Plan, as amended and restated, is called the Plan.~~

~~**Section 1.1 *Purpose.*** This Long Term Incentive Plan is established by Chesapeake Energy Corporation (the Company ) to foster and promote the sustained progress, growth and profitability of the Company by:~~

- (a) Attracting, retaining and motivating Employees, Non-Employee Directors and Consultants;
- (b) allowing Employees, Non-Employee Directors and Consultants to acquire a proprietary and vested interest in the growth and performance of the Company;
- (c) providing incentives and rewards to Employees, Non-Employee Directors and Consultants who are in a position to contribute materially to the success and long-term objectives of the Company; and
- (d) aligning the financial interests of Employees, Non-Employee Directors and Consultants with those of the Company's shareholders.

~~**Section 1.2 *Effective Date.*** The Initial Plan is was effective as of October 1, 2004. The authority to issue Awards , and the modifications provided for herein will continue for a period be effective on the date of ten years from such date and will Shareholder Approval. The authority to issue Awards under the Plan will terminate on September 30, 2014. The and the remaining terms the Plan will continue in effect thereafter until all matters relating to the exercise and settlement of Awards and administration of the Plan have been completed.~~

~~**Section 1.3 *Shareholder Approval.*** The Plan shall be subject to Initial Plan received Shareholder Approval, which must occur within the period ending twelve months after the date the Plan is adopted by the Board. Pending such Shareholder Approval, Awards under the Plan may be granted, but Options may not be exercised nor may Awards vest prior to receipt of such Shareholder Approval. In the event such Shareholder Approval is not obtained within such twelve month period, this Plan and all such Awards hereunder shall be void on June 10, 2005. The modifications provided herein to the Initial Plan shall be submitted for Shareholder Approval at the annual meeting of shareholders to be held on June 9, 2006 or any adjournment thereof. Unless and until such Shareholder Approval is obtained, the Initial Plan will continue in effect unchanged by the modification provided herein.~~

**2. DEFINITIONS**

**Section 2.1 *Affiliated Entity*** means any partnership or limited liability company in which a majority of voting power thereof is owned or controlled, directly or indirectly, by the Company or one or more of its Subsidiaries or Affiliated Entities or a combination thereof.

**Section 2.2 *Appreciation*** means, with respect to a SAR (as hereafter defined), the amount by which the Fair Market Value of a share of Common Stock on the date of exercise of the SAR exceeds either (i) the exercise price of the Option to which a tandem SAR relates, in the case of a tandem SAR, or (ii) the Fair Market Value of a share of Common Stock on the Date of Grant of the SAR, in the case of a stand-alone SAR.

**Section 2.3 *Award*** means, individually or collectively, any Option, SAR, Performance Share, Restricted Stock, Other Stock Award or Cash Award granted under the Plan to an Eligible Person pursuant to such terms, conditions, restrictions, and/or limitations, if any, as the applicable Committee may establish by the Award Agreement or otherwise.

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**Table of Contents**

**Section 2.4** *Award Agreement* means any written or electronic instrument that establishes the terms, conditions, restrictions, and/or limitations applicable to an Award in addition to those established by this Plan and by the Committee's exercise of its administrative powers.

**Section 2.5** *Board* means the Board of Directors of the Company.

**Section 2.6** *Cash Award* means a cash bonus granted by the Committee to a Participant pursuant to Section 8.

**Section 2.7** *Change of Control* means the occurrence of any of the following:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a *Person*) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of common stock of the Company (the *Outstanding Company Common Stock*) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the *Outstanding Company Voting Securities*). For purposes of this Section 2.7 the following acquisitions by a Person will not constitute a Change of Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph (iii) below;

(ii) the individuals who, as of the date hereof, constitute the board of directors (the *Incumbent Board*) cease for any reason to constitute at least a majority of the board of directors. Any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board as of the date hereof, but any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board will not be deemed a member of the Incumbent Board as of the date hereof;

(iii) the consummation of a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company (a *Business Combination*), unless following such Business Combination: (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) the approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

## **Table of Contents**

For Executive Officers, a Change of Control means the occurrence of any of the foregoing events; provided, however, if a change of control is defined in any Executive Officer's employment agreement with the Company, a Change of Control with respect to any Award granted to such Executive Officer under the Plan shall mean any of the events described in the definition of change of control in such Executive Officer's employment agreement in force at the time of determination.

**Section 2.8** *Code* means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any Section of the Code shall be deemed to include any amendments or successor provisions to such Section and any regulations under such Section.

**Section 2.9** *Committee* means the Compensation Committee of the Board (or any successor committee) or a subcommittee thereof designated by the Board of Directors.

**Section 2.10** *Common Stock* means the common stock, par value \$.01 per share, of the Company and, after substitution, such other stock as shall be substituted therefor as provided in Section 3.3(b) of the Plan.

**Section 2.11** *Consultant* means any person who is engaged by the Company, a Subsidiary or an Affiliated Entity to render consulting or advisory services.

**Section 2.12** *Date of Grant* means the date on which the grant of an Award is made by the Committee.

**Section 2.13** *Disability* has the meaning set forth in Section 409(A)(a)(2)(C) of the Code.

**Section 2.14** *Eligible Person* means any Employee, Non-Employee Director, or Consultant.

**Section 2.15** *Employee* means any employee of the Company, a Subsidiary or an Affiliated Entity or any person to whom an offer of employment with the Company, a Subsidiary or an Affiliated Entity is extended, as determined by the Committee.

**Section 2.16** *Exchange Act* means the Securities Exchange Act of 1934, as amended.

**Section 2.17** *Executive Officer Participants* means Participants who are subject to the provisions of Section 16 of the Exchange Act with respect to the Common Stock.

**Section 2.18** *Fair Market Value* means, as of any day, the closing price of the Common Stock on such day (or on the next preceding business day, if such day is not a business day or if no trading occurred on such day) as reported on the New York Stock Exchange or on such other securities exchange or reporting system as may be designated by the Committee. In the event that the price of a share of Common Stock shall not be so reported, the Fair Market Value of a share of Common Stock shall be determined by the Committee in its absolute discretion.

**Section 2.19** *Incentive Stock Option* means an Option within the meaning of Section 422 of the Code.

**Section 2.20** *Non-Executive Officer Participants* means Participants who are not subject to the provisions of Section 16 of the Exchange Act.

**Section 2.21** *Non-Employee Director* shall have the meaning set forth in Rule 16b-3, or any successor rule, promulgated under Section 16 of the Exchange Act.

**Section 2.22** *Nonqualified Stock Option* means an Option to purchase shares of Common Stock which is not an Incentive Stock Option within the meaning of Section 422(b) of the Code.

**Section 2.23** *Option* means an Incentive Stock Option or Nonqualified Stock Option.

## **Table of Contents**

**Section 2.24** *Other Stock Award* means any right granted to a Participant by the Committee under Section 7 of the Plan.

**Section 2.25** *Participant* means an Eligible Person to whom an Award has been granted by the Committee under the Plan.

**Section 2.26** *Performance Award* means any award of Performance Shares granted by the Committee under Section 6 of the Plan.

**Section 2.27** *Performance Measures* means the Company's achievement of target levels of earnings per share, share price, net income, cash flows, reserve additions or replacements, production volume, finding costs, operating costs, overhead or other costs, drilling results, acquisitions and divestitures, risk management activities, return on equity, total or comparative shareholder return, a combination of or interrelationship among any of the foregoing, or other criteria, as determined by the Committee.

**Section 2.28** *Performance Share* means the Common Stock subject to a Performance Award granted under Section 6 of the Plan, which may be delivered to the Participant upon the achievement of such performance goals during the Performance Period as specified by the Committee.

**Section 2.29** *Plan* means the Chesapeake Energy Corporation Long Term Incentive Plan.

**Section 2.30** *Restricted Stock* means the Common Stock issued under Section 5 which is subject to any restrictions that the Committee, in its discretion, may impose.

**Section 2.31** *SAR* means a Stock Appreciation Right.

**Section 2.32** *Shareholder Approval* means approval by the holders of a majority of the outstanding shares of Common Stock, present or represented and entitled to vote at a meeting called for such purposes.

**Section 2.33** *Stock Appreciation Right* means a right, granted under Section 4, to an amount in Common Stock equal to any increase in the Fair Market Value of the Common Stock between the date on which the Stock Appreciation Right is granted and the date on which the right is exercised.

**Section 2.34** *Subsidiary* shall have the same meaning set forth in Section 424(f) of the Code.

## **3. ADMINISTRATION**

**Section 3.1** *Administration of the Plan; the Committee.* The Committee shall have overall authority to administer the Plan. The Board may designate a subcommittee of the Committee to grant and determine the terms and conditions of Awards granted under the Plan to Non-Executive Officer Participants, subject to any terms or conditions established by the Committee. Any Awards or formula for granting Awards under the Plan made to Non-Employee Directors shall be approved by the Board. With respect to awards to such Non-Employee Directors, all rights, powers and authorities vested in the Committee under the Plan shall instead be exercised by the Board, and all provisions of the Plan relating to the Committee shall be interpreted in a manner consistent with the foregoing by treating any such reference as a reference to the Board for such purpose. Although the Committee is generally responsible for the administration of the Plan, the Board in its sole discretion may take any action under the Plan that would otherwise be the responsibility of the Committee.

Unless otherwise provided in the bylaws of the Company or resolutions adopted from time to time by the Board establishing the Committee, the Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, however caused, shall be filled by the Board. The Committee shall hold meetings at such times and places as it may determine. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present shall be the valid acts of the Committee. Any action which may be taken at a meeting of the Committee may be taken without a meeting if all the members of the Committee consent to the action in writing.

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**Table of Contents**

Subject to the provisions of the Plan, the Committee shall have the authority to:

- (a) Select the Eligible Persons to participate in the Plan.
- (b) Determine the time or times when Awards will be granted.
- (c) Determine the form of Award, the number of shares of Common Stock subject to any Award, all the terms, conditions (including performance requirements), restrictions and/or limitations, if any, of an Award, including the time and conditions of exercise or vesting, and the terms of any Award Agreement, which may include the waiver or amendment of prior terms and conditions or acceleration of the vesting or exercise of an Award under certain circumstances determined by the Committee. (subject to Section 10.2 of the Plan). However, nothing in this Section 3.1 shall be construed to permit the repricing of any outstanding Award in violation of Section 4.3.
- (d) Determine whether Awards will be granted singly or in combination.
- (e) Determine whether, to what extent and under what circumstances Awards may be settled in cash or Common Stock.
- (f) Determine whether any conditions applicable to an Award have been met and whether an Award will be paid at the end of a Performance Period.
- (g) Employ attorneys, consultants, accountants and other advisors as deemed necessary or appropriate by the Committee.
- (h) Take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan.

**Section 3.2 Committee to Make Rules and Interpret Plan.** The Committee in its sole discretion shall have the authority, subject to the provisions of the Plan, to establish, adopt, or revise such rules and regulations and to make all such determinations relating to the Plan as it may deem necessary or advisable for the administration of the Plan. The Committee's interpretation of the Plan or any Awards granted pursuant hereto and all decisions and determinations by the Committee with respect to the Plan shall be final, binding, and conclusive on all parties, unless otherwise determined by the Board.

**Section 3.3 Shares Subject to the Plan.** Subject to adjustment as provided in paragraph (b) below and subject to Section 3.4, the aggregate number of shares of Common Stock which are available for Awards under the Plan will not exceed ~~three (3)~~ seven (7) million shares. Any of the authorized shares of Common Stock may be used for any of the types of Awards described in the Plan, except that no more than ~~1,500,000~~ 3,000,000 shares of Common Stock may be issued pursuant to Incentive Stock Options. Common Stock delivered pursuant to an Award under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares. The Committee, in its sole discretion, shall determine the manner in which fractional shares arising under this Plan are treated. Additional restrictions or adjustments with respect to shares subject to the Plan are as follows:

- (a) Subject to (b) below, the aggregate number of shares of Common Stock pursuant to Options and SARs granted to any Employee or Non-Employee Director in any calendar year under this Plan may not exceed ~~1,000,000~~ 750,000 shares and the aggregate number of shares of Common Stock pursuant to Restricted Stock, Performance Awards and Other Stock Awards granted to any Employee or Non-Employee Director in any calendar year may not exceed ~~1,000,000~~ 750,000 shares.
- (b) In the event that the shares of Common Stock, as presently constituted, shall be changed into or exchanged for a different number or kind or shares of stock or other securities of the Company or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, combination of shares or ~~otherwise~~ other corporate event of similar nature), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, then there shall be substituted for or added to each share available under and subject to the Plan as provided herein, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case

## **Table of Contents**

may be, to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Common Stock to preclude, to the extent practicable, the enlargement or dilution of rights under such Awards. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to the Plan, or in any Award theretofore granted or which may be granted under the Plan, such adjustments shall be made in accordance with such determination.

No fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

**Section 3.4 Share Counting.** The following shares of Common Stock related to Awards will be available for issuance again under the Plan:

- (a) Common Stock related to Awards paid in cash;
- (b) Common Stock related to Awards that expire, are forfeited or cancelled or terminate for any other reason without the delivery of the Common Stock;
- (c) Common Stock equal in number to the shares of Common Stock surrendered in payment of the exercise price of an Option; and
- (d) Common Stock tendered or withheld in order to satisfy withholding tax obligations.

## **4. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS**

**Section 4.1 Grant of Options and SARs.** The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Nonqualified Stock Options and Stock Appreciation Rights (SARs) to Eligible Persons and Incentive Stock Options to Employees. SARs may be granted either alone or in tandem with concurrently or previously issued Options. Each grant of an Option or SAR shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 4.2.

**Section 4.2 Conditions of Options and SARs.** Each Option and SAR so granted shall be subject to the following conditions:

- (a) *Exercise Price.* As limited by Section 4.2(e) below, the Award Agreement for each Option and SAR shall state the exercise price set by the Committee on the Date of Grant. No Option or SAR shall be granted at an exercise price which is less than the Fair Market Value of the Common Stock on the Date of Grant.
- (b) *Exercise of Options and SARs.* Options and SARs granted under the Plan shall be exercisable, in whole or in such installments and at such times, and shall expire at such time, as shall be provided by the Committee in the Award Agreement. An SAR issued in tandem with an Option is only exercisable to the extent the related Option is exercisable and is subject to the conditions applicable to such Option. When a tandem SAR is exercised, the Option to which it relates shall cease to be exercisable to the extent of the number of shares with respect to which the tandem SAR is exercised. Similarly when the Option is exercised, the tandem SARs relating to the shares covered by such Option exercise shall terminate.
- (c) *Form of Payment.* The payment of the exercise price of an Option by the Participant shall be made in cash, shares of Common Stock, a combination thereof or in such other manner as the Committee may specify in the applicable Award Agreement. The payment of the Appreciation associated with the exercise of a SAR shall be made by the Company in shares of Common Stock.
- (d) *Term of Option or SAR.* The term of an Option or SAR shall be determined by the Committee and specified in the applicable Award Agreement, except that no Option or SAR shall be exercisable after the expiration of ten years from the Date of Grant.

**Table of Contents**

(e) *Special Restrictions Relating to Incentive Stock Options.* Options issued in the form of Incentive Stock Options shall only be granted to Employees of the Company or a Subsidiary and not to Employees of an Affiliated Entity unless such entity is classified as a disregarded entity of the Company or the applicable Subsidiary under the Code. In addition to being subject to all applicable terms, conditions, restrictions and/or limitations established by the Committee, Options issued in the form of Incentive Stock Options shall comply with the requirements of Section 422 of the Code (or any successor Section thereto), including, without limitation, the requirement that the exercise price of an Incentive Stock Option not be less than 100% of the Fair Market Value of the Common Stock on the Date of Grant, the requirement that each Incentive Stock Option, unless sooner exercised, terminated or canceled, expire no later than ten years from its Date of Grant, and the requirement that the aggregate Fair Market Value (determined on the Date of Grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under this Plan or any other plan of the Company or any Subsidiary) not exceed \$100,000. Incentive Stock Options which are in excess of the applicable \$100,000 limitation will be automatically recharacterized as Nonqualified Stock Options. No Incentive Stock Options shall be granted to any Employee if, immediately before the grant of an Incentive Stock Option, such Employee owns more than 10% of the total combined voting power of all classes of stock of the Company or its Subsidiaries (as determined in accordance with the stock attribution rules contained in Sections 422 and 424(d) of the Code) unless the exercise price is at least 110% of the Fair Market Value of the Common Stock subject to the Incentive Stock Option, and such Incentive Stock Option by its terms is exercisable no more than five years from the date such Incentive Stock Option is granted.

(f) *Shareholder Rights.* No Participant shall have any rights as a shareholder with respect to any share of Common Stock subject to an Option or SAR prior to the purchase or receipt of such share of Common Stock by exercise of the Option or SAR. In addition, no Option or SAR granted under the Plan shall include any dividend equivalents.

**Section 4.3** *No Repricing.* ~~Except as otherwise provided in for adjustments made pursuant to Section 3.3(b), in no event will the Committee, without first obtaining Shareholder Approval, (i) decrease the exercise price of an Option or SAR after the Date of Grant or cancel outstanding Options or SARs and; (ii) accept for surrender to the Company any outstanding Option or SAR granted under the Plan as consideration for the grant replacement Options of a new Option or SARs with a lower exercise price than that of the replaced Options; or SARs without first obtaining Shareholder Approval (iii) repurchase from Participants any outstanding Options or SARs that have an exercise price per share less than the then current Fair Market Value of a Share.~~

**5. RESTRICTED STOCK AWARDS**

**Section 5.1** *Grant of Restricted Stock.* The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Restricted Stock to any Eligible Person. Restricted Stock shall be awarded in such number, for such purchase price (if any) and at such times during the term of the Plan as the Committee shall determine. Each grant of Restricted Stock shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 5.2. Restricted Stock issued pursuant to a Restricted Stock Award may be evidenced in such manner as the Committee deems appropriate, including, without limitation, a book-entry registration or issuance of a stock certificate or certificates into escrow until the restrictions associated with such Award are satisfied.

**Section 5.2** *Conditions of Restricted Stock Awards.* The grant of Restricted Stock shall be subject to the following:

(a) *Restriction Period.* Each Restricted Stock Award shall require the holder to remain in the employment or otherwise be classified as an Eligible Person (or in the case of a Non-Employee Director, remain a director or consultant or be classified as another category of Eligible Person) of the Company, a Subsidiary, or an Affiliated Entity for a prescribed period (the Restriction Period). The Committee shall

**Table of Contents**

determine the Restriction Period or Periods that shall apply to the shares of Common Stock covered by each Award or portion thereof. In addition to any time vesting conditions determined by the Committee, Restricted Stock may be subject to the achievement by the Company of specified Performance Measures or other individual criteria as determined by the Committee. At the end of the Restriction Period, assuming the fulfillment of any other specified vesting conditions, the restrictions imposed by the Committee shall lapse with respect to the shares of Common Stock covered by the Award or portion thereof.

(b) *Code Section 162(m)*. If the Committee intends for a Restricted Stock Award to be granted and administered in a manner designed to preserve the deductibility of the resulting compensation in accordance with Section 162(m) of the Code, then Performance Measures applicable to such Award shall be established in writing by the Committee no later than the earlier of (i) 90 days after the commencement of the relevant Performance Period and (ii) the date as of which 25% of the Performance Period has elapsed. The Committee's discretion to modify or waive the Performance Measures related to the vesting of the Award may be restricted in order to comply with Section 162(m).

(c) *Forfeiture*. Except as otherwise determined by the Committee, upon termination of service or employment during the Restriction Period, all shares of Restricted Stock still subject to forfeiture shall be forfeited by the Participant and any purchase price paid by the Participant shall be returned to such Participant.

(d) *Shareholder Rights*. During any Restriction Period, the Committee may, in its discretion, grant to or withhold from the holder of Restricted Stock all or any of the rights of a shareholder with respect to the shares, including, but not by way of limitation, the right to vote such shares or to receive dividends. If any dividends or other distributions are paid in shares of Common Stock and distributed to the holder of Restricted Stock, all such shares shall be subject to the same restrictions on transferability as the shares of Common Stock subject to the Award with respect to which they were paid.

(e) *Minimum Vesting Condition*. The minimum Restriction Period applicable to any Restricted Stock that is not subject to performance criteria restricting the vesting of the Award shall be three years from the Date of Grant (subject to ~~acceleration~~the provisions of vesting, to the extent permitted by the Committee, in the event of the Participant's death, Disability, retirement, change of control, involuntary termination or other special circumstancesSection 10.2).

**6. PERFORMANCE AWARDS**

**Section 6.1** *Grant of Performance Shares*. The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Performance Shares to any Eligible Person. Performance Shares shall be awarded in such number and at such times during the term of the Plan as the Committee shall determine. Each Performance Award shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 6.2.

**Section 6.2** *Conditions of Performance Awards*. The grant of Performance Shares shall be subject to the following:

(a) *Performance Period*. Performance Shares will be subject to the achievement of one or more performance goals by the Company or the Participant individually, measured for a prescribed period (the Performance Period), as specified by the Committee, such Performance Period to be not less than one year in duration. Such performance goals may be based upon the Company's achievement of Performance Measures or other individual criteria.

(b) *Code Section 162(m)*. If the Committee intends for a Performance Award to be granted and administered in a manner designed to preserve the deductibility of the resulting compensation in accordance with Section 162(m) of the Code, then the Performance Measures applicable to such Award shall be established in writing by the Committee no later than the earlier of (i) 90 days after the commencement of



## **Table of Contents**

the relevant Performance Period and (ii) the date as of which 25% of the Performance Period has elapsed. The Committee's discretion to modify or waive the Performance Measures to the vesting of the Award may be restricted in order to comply with Section 162(m).

(c) *Payment Respecting Performance Shares.* Performance Shares shall be earned to the extent that their terms and conditions are met, as certified by the Committee. The form and timing of payment for Performance Shares earned shall be determined by the Committee and specified in the Award Agreement; however, in no event shall the payment for Performance Shares earned be made on a date that is later than 60 days after the vesting of such Performance Shares.

(d) *Termination of Employment.* The Committee, in its sole discretion, may (i) permit a Participant who ceases to be an Eligible Person before the end of any Performance Period, or the personal representative of a deceased Participant, to continue to be subject to a Performance Award relative to the current Performance Period until such Awards are forfeited or earned pursuant to their terms and conditions or (ii) authorize the payment to such Participant, or the personal representative of a deceased Participant, of the Performance Shares which would have been paid to the Participant had the Participant remained an Eligible Person to the end of the Performance Period. In the absence of such permission by the Committee, any unvested Performance Shares shall be forfeited when a Participant ceases to be an Eligible Person.

## **7. OTHER STOCK AWARDS**

**Section 7.1** *Grant of Other Stock Awards.* The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, specify the terms and provisions of other forms of equity-based or equity-related awards not described above which the Committee determines to be consistent with the purpose of the Plan and the interests of the Company, which awards may provide for cash payments based in whole or in part on the value or future value of Common Stock, for the acquisition or future acquisition of Common Stock, or any combination thereof. Each Other Stock Award shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 7.2.

**Section 7.2** *Minimum Vesting Condition.* Other Stock Awards subject to performance criteria shall not vest in less than one year and Other Stock Awards which are subject to time vesting shall not vest in less than three years.

## **8. CASH AWARDS**

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant to an Eligible Person a Cash Award (including without limitation, discretionary Awards, Awards based on objective performance criteria or Awards based on subjective performance criteria). Cash Awards shall be awarded in such amount and at such times during the term of the Plan as the Committee shall determine. Each Cash Award shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve.

## **9. FUNDAMENTAL TRANSACTION; CHANGE OF CONTROL**

**Section 9.1** *Fundamental Transaction.* If the Company merges with another entity in a transaction in which the Company is not the surviving entity or if, as a result of a merger, other business combination or any other transaction or event, other securities are substituted for the Common Stock or the Common Stock may no longer be issued (each, a Fundamental Transaction), then notwithstanding any other provisions of the Plan, the Board or Committee may take one or more of the following actions contingent on the closing or completion of the Fundamental Transaction, without the consent of any Participant:

(a) Arrange for the substitution, in exchange for outstanding Options and SARs that are not exercised prior to the Fundamental Transaction, of comparable options to purchase and stock appreciation rights

**Table of Contents**

related to equity securities of the surviving corporation (or a parent or subsidiary of the surviving corporation), and for other Awards to remain outstanding after the Fundamental Transaction and be converted to comparable awards of the surviving corporation (or a parent or subsidiary of the surviving corporation), on such terms as the Board determines are appropriate;

(b) Accelerate the vesting of Awards so that (i) all outstanding Options and SARs shall be fully exercisable and any unexercised Options and SARs shall terminate upon the closing of the Fundamental Transaction, (ii) restrictions on outstanding Restricted Stock, Other Stock Awards and Cash Awards shall lapse; and (iii) each outstanding Performance Award shall be deemed to have achieved a level of performance that would cause all of the Performance Shares to become payable; and

(c) Cancel or arrange for the cancellation of Awards in exchange for cash payments, equity securities or other consideration to Participants, on such terms as the Board determines are appropriate.

The Board or Committee need not take the same action for each Award or Participant.

**Section 9.2 Change of Control.** Notwithstanding any other provisions of the Plan to the contrary, the Board or Committee may also, but need not, take any one or more of the actions described in Section 9.1 upon the occurrence of a Change of Control, without the consent of any Participant. The Board or Committee need not take the same action for each Award or Participant.

**10. GENERAL**

**Section 10.1 Amendment or Termination of Plan.** The Board may suspend or terminate the Plan at any time. In addition, the Board may, from time to time, amend the Plan in any manner, but may not adopt any amendment without Shareholder Approval if (i) such approval is necessary or desirable to qualify or comply with any tax or regulatory requirement for which or with which the Board deems it necessary or desirable to qualify or comply, or (ii) in the opinion of counsel to the Company, Shareholder Approval is required by any federal or state laws or regulations or the rules of any stock exchange on which the common stock may be listed.

**Section 10.2 Acceleration of Awards on ~~Death, Disability, Death, Retirement or Other Special Circumstances~~ Involuntary Termination.** With respect to (i) a Participant who ceases to be an Eligible Person due to a Disability, (ii) the personal representative of a deceased Participant, or (iii) any other Participant who ceases to be an Eligible Person ~~upon due to the occurrence of special circumstances~~ Participant's retirement or involuntary termination (as ~~determined~~ defined by the Committee), the Committee, in its sole discretion, may permit the purchase of all or any part of the shares subject to any unvested Option or waive the vesting requirements of any Award on the date the Participant ceases to be an Eligible Person due to a Disability, ~~death or special circumstances, retirement or as the Committee otherwise so determines~~ involuntary termination. With respect to Options which have already vested at such date or the vesting of which is accelerated by the Committee in accordance with the foregoing provision, the Participant or the personal representative of a deceased Participant shall have the right to exercise such vested Options within such period(s) as the Committee shall determine.

**Section 10.3 Withholding Taxes.** A Participant must pay in cash to the Company the amount of taxes required to be withheld by law upon the exercise of an Option. Required withholding taxes associated with Restricted Stock, Performance Shares, Cash or Other Stock Awards must also be paid in cash unless the Committee requires a Participant to pay the amount of taxes required by law to be withheld from such Awards by directing the Company to withhold from any Award the number of shares of Common Stock having a Fair Market Value on the date of vesting equal to the amount of required withholding taxes.

**Section 10.4 Code Section 83(b) Elections.** The Company, its Subsidiaries and Affiliated Entities have no responsibility for a Participant's election, attempt to elect or failure to elect to include the value of an Award subject to Section 83 in the Participant's gross income for the year of grant pursuant to Section 83(b) of the Code. Any Participant who makes an election pursuant to Section 83(b) will promptly provide the Committee with a copy of the election form.

## **Table of Contents**

**Section 10.5** *Code Section 162(m)*. It is the intent of the Company that the Plan comply in all respects with Section 162(m) of the Code and that any ambiguities or inconsistencies in construction of the Plan be interpreted to give effect to such intention.

**Section 10.6** *Code Section 409A*. It is the intent of the Company that no Award under the Plan be subject to Section 409A of the Code. The Committee shall design and administer the Awards under the Plan so that they are not subject to Section 409A of the Code.

**Section 10.7** *Certain Additional Payments by the Company*. The Committee may, in its sole discretion, provide in any Award Agreement for certain payments by the Company in the event that acceleration of vesting of any Award under the Plan is subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (such excise tax, interest and penalties, collectively, the Excise Tax ). An Award Agreement may provide that the Participant shall be entitled to receive a payment (a Gross-Up Payment ) in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax imposed upon the Gross-Up Payment, the Participant retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon such acceleration of vesting of any Award.

**Section 10.8** *Non-Transferability*. Subject to other provisions of the Plan and any applicable Award Agreement, Awards are not transferable other than by will or the laws of descent and distribution. Any attempted sale, transfer, assignment, pledge, hypothecation or other disposition of, or the levy of execution, attachment or similar process upon, any Award contrary to the provisions hereof shall be void and ineffective, shall give no right to any purported transferee, any may, at the sole discretion of the Committee, result in forfeiture of the Award involved in such attempt. The Committee shall impose such other restrictions and conditions on any shares of Common Stock covered by an Award as it may deem advisable including, without limitation, restrictions under applicable Federal or state securities laws, and may legend the certificates representing the shares of Common Stock subject to the Award to give appropriate notice of such restrictions. Notwithstanding the foregoing, an Award held by a Non-Employee Director may be transferable under certain circumstances as specified by the Committee in the Award Agreement.

**Section 10.9** *Non-Uniform Determinations*. The Committee's determinations under the Plan, including without limitation, (i) the determination of the Eligible Persons to receive Awards, (ii) the form, amount and timing of such Awards, (iii) the terms and provisions of such Awards, (iv) minimum employment or service periods, and (v) agreements evidencing the same, need not be uniform and, subject to any restrictions set forth in the Plan, may be made by ~~the Committee~~ selectively among Participants who receive, or who are eligible to receive, Awards under the Plan, whether or not such Participants are similarly situated.

**Section 10.10** *Leaves of Absence, Suspensions*. The Committee shall be entitled to make such rules, regulations and determinations as it deems appropriate under the Plan in respect of any suspension of employment or leave of absence from the Company granted to a Participant whether such suspension or leave is paid or unpaid and whether due to a Disability or otherwise. Without limiting the generality of the foregoing, the Committee shall be entitled to determine (i) whether or not any such suspension or leave of absence shall be treated as if the Participant ceased to be an employee of the Company and (ii) the impact, if any, of any such suspension or leave of absence on Awards under the Plan.

**Section 10.11** *Participant Misconduct*. Notwithstanding anything in the Plan to the contrary, the Committee shall have the authority under the Plan to determine that in the event of serious misconduct by the Participant (including violations of employment agreements, confidentiality or other proprietary matters) or any activity of a Participant in competition with the business of the Company or any Subsidiary or Affiliated Entity, any outstanding Award granted to such Participant may be cancelled, in whole or in part, whether or not vested. The determination of whether a Participant has engaged in a serious breach of conduct or any activity in competition with the business of the Company or any Subsidiary or Affiliated Entity shall be determined by the Committee in good faith and in its sole discretion. This Section 10.11 shall have no effect and be deleted from the Plan following a Change of Control.

## **Table of Contents**

**Section 10.12 *Regulatory Approval and Listings.*** The Company shall use its best efforts to file with the Securities and Exchange Commission as soon as practicable following the date this Plan is effective, and keep continuously effective and usable, a Registration Statement on Form S-8 with respect to shares of Common Stock subject to Awards hereunder. Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates representing shares of Common Stock evidencing Awards prior to:

- (a) the obtaining of any approval from, or satisfaction of any waiting period or other condition imposed by, any governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable;
- (b) the listing of such shares on any exchange on which the Common Stock may be listed; and
- (c) the completion of any registration or other qualification of such shares under any state or federal law or regulation of any governmental body which the Committee shall, in its sole discretion, determine to be necessary or advisable.

**Section 10.13 *Right to Continued Employment or Board Membership.*** Participation in the Plan shall not give any Participant any right to remain in the employ of the Company, a Subsidiary or an Affiliated Entity or any right to remain on the Board of the Company. Further, the adoption of this Plan shall not be deemed to give any Employee, Non-Employee Director or Consultant or any other individual any right to be granted an Award.

**Section 10.14 *Other Compensation Programs.*** The existence and terms of the Plan shall not limit the authority of the Board in compensating Employees and Non-Employee Directors in such other forms and amounts, including compensation pursuant to any other plans as may be currently in effect or adopted in the future, as it may determine from time to time.

**Section 10.15 *Reliance on Reports.*** Each member of the Committee and each member of the Board shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company and its Subsidiaries and upon any other information furnished in connection with the Plan by any person or persons other than the Committee or Board member. In no event shall any person who is or shall have been a member of the Committee or the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information, including the furnishing of information, or failure to act, if in good faith.

**Section 10.16 *Construction.*** The titles and headings of the sections in the Plan are for the convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

**Section 10.17 *Governing Law, Severability.*** The Plan shall be governed by and construed in accordance with the laws of the State of Oklahoma except as superseded by applicable federal law. If any provision of the Plan is held unlawful or otherwise invalid or unenforceable in whole or in part, the unlawfulness, invalidity or unenforceability will not affect any other parts of the Plan, which will remain in full force and effect.

**Section 10.18 *Supersession.*** Upon receipt of Shareholder Approval pursuant to Section 1.4, this Plan supersedes and replaces in all respects the Initial Plan and any Award Agreement issued pursuant to the Plan after the effective date of this Plan will be governed by the terms of this Plan and not by the Initial Plan or any other plans or agreements, oral or otherwise.

**Table of Contents**

**EXHIBIT B**

**CHESAPEAKE ENERGY CORPORATION**  
**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**  
**CHARTER**

**As Amended and Restated September 19, 2005**

**I. Purpose**

The purpose of the audit committee is to assist the Board of Directors (the Board) in overseeing (a) the integrity of the Corporation's financial statements, (b) the Corporation's compliance with legal and regulatory requirements, (c) the independent auditor's qualifications and independence, and (d) the performance of the Corporation's internal auditor and independent auditor. In so doing, it is the responsibility of the audit committee to maintain free and open communication between the directors, the independent auditor and the financial management of the Corporation. The audit committee believes its policies and procedures should remain flexible in order to react more effectively to changing conditions and to ensure that the corporate accounting and reporting practices of the Corporation are in accordance with all requirements and are of the highest quality.

Management is responsible for determining that the Corporation's financial statements are complete and accurate and prepared in accordance with generally accepted accounting principles (GAAP), and the independent auditor is responsible for auditing the financial statements. In discharging its responsibilities, the Committee is responsible for assisting the Board in overseeing the conduct of these activities by management and the independent auditor.

**II. Organization**

**A. Charter**

At least annually the committee will review, assess and update this charter.

**B. Members and Qualifications**

The audit committee will consist of three or more directors as selected by the Board, each of whom will meet the independence requirements of the New York Stock Exchange, Section 10A(m)(3) of the Securities Exchange Act of 1934 (the Exchange Act), the rules and regulations of the Securities and Exchange Commission (SEC) and the independence requirements established by the Board. All members of the committee will have a working familiarity with basic finance and accounting practices and will be financially literate as such qualification is interpreted by the Board in its business judgment. At least one member of the committee must have accounting or related financial management expertise, as such qualification is interpreted by the Board in its business judgment, and may be designated by the Board as an audit committee financial expert as defined by the SEC. Members of the committee will not simultaneously serve on the audit committees of more than two other public companies.

The members of the audit committee will be appointed by the Board on the recommendation of the Nominating and Corporate Governance Committee. Audit committee members may be removed and/or replaced by the Board.

**C. Meetings**

The audit committee will meet as frequently as circumstances dictate. The chairman of the audit committee will be responsible for establishing the agenda for each meeting of the committee. An agenda will be sent to members of the committee prior to each meeting. Minutes for all meetings of the audit committee will be prepared and submitted for approval at a subsequent meeting of the committee. The committee may also

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B-1

## **Table of Contents**

unanimous written consent. The audit committee will make regular reports to the Board and submit the minutes of all committee meetings to, or review the matters discussed at each committee meeting with, the Board.

The committee will meet at least annually with management, the head of internal audit and the independent auditor in separate executive session to discuss any matters that the committee or one of the foregoing believes should be discussed privately. The audit committee may request any officer or employee of the Corporation or the Corporation's outside counsel to attend a meeting of the committee or to meet with any members of, or consultants to, the committee. If determined by the committee to be appropriate under the circumstances then existing, the committee or the committee's designated representative may meet or talk with the Corporation's investment bankers and financial analysts who follow the Corporation.

### **D. *Self Evaluation***

The audit committee will evaluate the performance and effectiveness of the committee annually and report the results of such evaluation to the Board.

### **E. *Authority and Resources***

The audit committee will have appropriate authority and resources to discharge its responsibilities as required by applicable regulation and this Charter. The committee will have the authority to retain independent legal, accounting or other advisors, as it deems necessary. The Corporation will provide for appropriate funding, as determined by the committee, for payment of (a) ordinary administrative expenses of the committee that are necessary or appropriate in carrying out its duties, (b) compensation to the independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation and (c) compensation to advisors retained by the committee.

## **III. *Responsibilities***

### **A. *Independent Auditor***

The committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. The independent auditor shall report directly to the committee. The committee's responsibilities with respect to the independent auditor include the following:

1. At least annually, obtain from the independent auditor a formal written statement delineating all relationships between the auditor, the Corporation and the management of the Corporation; review and discuss with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor; and, if necessary, make recommendations to the Board regarding any actions to be taken to ensure the independence of the Corporation's independent auditor.
2. Obtain and review a report from the independent auditor at least annually regarding: (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality control review, peer review or Public Company Accounting Oversight Board review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, and (c) any steps taken to deal with any such issues.
3. Periodically review and evaluate the lead partner of the independent auditor team.
4. Ensure the rotation of the independent audit team as required by law and periodically consider whether a policy regarding the periodic rotation of independent audit firms is necessary.

## **Table of Contents**

5. Set hiring policies for employees or former employees of the independent auditor.
6. Pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by the independent auditor, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the committee prior to the completion of the audit. The committee may retain the independent auditor by formal engagement letters, pursuant to pre-approval policies and procedures established by the committee, or by the act of a subcommittee consisting of one or more members with delegated authority to grant pre-approvals of audit and permitted non-audit services.

### **B. *Financial Reporting***

In carrying out its responsibilities to oversee the Corporation's financial reporting, the audit committee will:

1. Meet with the independent auditor and financial management of the Corporation to review the scope, planning and staffing of each audit and review the audit procedures to be utilized.
2. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards Nos. 61 and 90 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
3. Review and discuss with management and the independent auditor (a) significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including the effects of alternative GAAP methods on the financial statements, (b) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, (c) material issues on which audit team consulted the independent auditor's national office; (d) accounting adjustments that were noted or proposed by the independent auditors but were passed (as immaterial or otherwise); and (d) any management or internal control letter issued, or proposed to be issued, by the independent auditor to the Corporation.
4. Obtain, review and discuss reports from the independent auditor, prior to the filing of audited financial statements with the SEC, regarding (a) all critical accounting policies and practices to be used; (b) all alternative treatments of financial information within GAAP for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor; and (c) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
5. Obtain assurance from the independent auditor that, in the course of conducting the audit, no illegal acts were detected or otherwise came to the independent auditor's attention that require disclosure to the committee under Section 10A(b) of the Exchange Act.
6. Discuss with management and the independent auditor any major issues as to the adequacy of the Corporation's internal controls, any special audit steps adopted in light of material control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting.
7. Review and discuss with management, the internal auditor and the independent auditor management's annual internal control report and the independent auditor's attestation of the report prior to the filing of the Corporation's Form 10-K.
8. Review and discuss with management and the independent auditor the annual audited financial statements, including the Corporation's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and recommend to the Board whether the audited financial statements should be included in the Corporation's Form 10-K.
9. Review with management and the independent auditor the Corporation's quarterly financial statements and a draft of its Form 10-Q prior to the filing of the Form 10-Q, including the results of the independent auditor's reviews of the quarterly financial statements.



## **Table of Contents**

10. Review disclosures made to the committee by the CEO and CFO during their certification process for the Form 10-K and Form 10-Q regarding any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Corporation's ability to record, process, summarize and report financial information and any fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting.

11. Discuss with management the Corporation's earnings press releases, including the use of pro forma information or non-GAAP financial measures, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

12. Discuss with management (a) the Corporation's major financial risk exposures and the steps management has taken to monitor and control those exposures and (b) the guidelines and policies to govern the process by which risk assessment and risk management is undertaken.

13. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives on the Corporation's financial statements.

### ***C. Internal Audit***

In overseeing the performance of the Corporation's internal audit function, the committee will:

1. Review the appointment and replacement of the senior internal auditing executive.
2. Review the significant reports to management prepared by the internal audit staff and related management responses.
3. Periodically review with management and the independent auditor the responsibilities, budget, staffing and scope of the internal audit function.

### ***D. Legal, Regulatory and Other Compliance Matters***

The committee will take the following actions in connection with its oversight of legal, regulatory and other compliance matters affecting the Corporation:

1. Obtain reports from management, internal auditing personnel and the independent auditor regarding compliance with applicable laws and regulations and with the Corporation's Code of Business Conduct and Ethics.
2. Discuss with the Corporation's general counsel any legal, compliance or regulatory issues that could have a material effect on the Corporation's financial statements or compliance policies.
3. Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
4. Investigate material matters brought to the committee's attention within the scope of its duties.
5. Review with management and the independent auditor any published reports and correspondence with regulators or governmental agencies which raise material issues regarding the Corporation's financial statements or SEC reporting.
6. Review insider or affiliated party transactions or courses of dealing and related disclosures in the Corporation's annual proxy statement (excluding transactions pursuant to plans approved by the Board).

### ***E. Report for Proxy Statement***

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The committee will prepare the report required by the rules of the SEC to be included in the Corporation's annual proxy statement.

B-4

