

CHESAPEAKE ENERGY CORP
Form DEF 14A
April 30, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
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

(Name of Registrant as Specified in its Charter)

(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:**

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

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):**

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

5) **Total fee paid:**

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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3) **Filing Party:**

4) **Date Filed:**

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6100 North Western Avenue
Oklahoma City, Oklahoma 73118

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On June 8, 2007

TO OUR SHAREHOLDERS:

The 2007 Annual Meeting of Shareholders of Chesapeake Energy Corporation, an Oklahoma corporation (the Company), will be held at The Westin Dallas Fort Worth Airport, Sunnyside Room, 4545 West John Carpenter Freeway, Irving, Texas, on Friday, June 8, 2007 at 10:00 a.m., local time, to consider and act upon the following matters:

1. To elect three directors, each for a three-year term;
2. To approve an amendment to our Long Term Incentive Plan;
3. To approve an amendment to our 2003 Stock Award Plan for Non-Employee Directors; 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 16, 2007 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.

To attend the meeting you will need a form of photo identification. If your shares are held in street name you will also need to bring proof of your ownership of our common stock, such as your most recent brokerage statement.

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; 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.

BY ORDER OF THE BOARD OF DIRECTORS

Jennifer M. Grigsby

Secretary

Oklahoma City, Oklahoma

April 30, 2007

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CHESAPEAKE ENERGY CORPORATION

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

To Be Held On June 8, 2007

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, 2006 are being mailed on or about April 30, 2007 to shareholders of record as of April 16, 2007. 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 16, 2007, the record date for the meeting, are entitled to notice of and to vote at the meeting. At the close of business on April 16, 2007, there were 461,441,659 shares of our common stock outstanding and 451,849,045 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; 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 your Plan shares and shares in 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 Plan and directly-held 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 5, 2007.** Please note, however, that since you only vote one time for all shares you own directly and in the Plan, your vote on each proposal will be identical across all of those shares. If you do not vote your proxy, the trustee will not vote the Plan shares credited to your Plan account.

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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). You may not cast more than one vote per share for each nominee. 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 amendments to our Long Term Incentive Plan and to our Stock Award Plan for Non-Employee Directors.

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 Long Term Incentive Plan and **FOR** the approval of the amendment to the 2003 Stock Award Plan for Non-Employee Directors. 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. Your broker is not empowered to vote your shares on the proposals to approve the amendments to our Long Term Incentive Plan and 2003 Stock Award Plan for Non-Employee Directors 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 2007.

Cost of Proxy Solicitation

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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

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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 2006 Annual Report are available on our website at 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 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. 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 Securities and Exchange Commission rules, we are permitted to send a single set of proxy materials to shareholders who share the same last name and address. This procedure is called "householding" and is designed to reduce our printing and postage costs. If you would like to receive a separate copy of a proxy statement or annual report, either now or in the future, please email us at investorinfo@chkenergy.com or write to us at the following address: Attn: Investor Relations, 6100 N. Western Avenue, Oklahoma City, Oklahoma, 73118.

If you hold your shares in street name and would like additional copies of the proxy materials, or if you are currently receiving multiple copies of the proxy materials and would like to request householding, please contact your broker.

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 Frank A. Keating and Frederick B. Whittemore for re-election as directors. The Board of Directors has also nominated Merrill A. Pete Miller, Jr. for election as a director. Mr. Miller 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 January 16, 2007. Mr. Miller's nomination as a director fills the vacancy created by Tom L. Ward, who resigned as a director effective February 10, 2006. Upon election, Governor Keating and Messrs. Whittemore and Miller will serve for terms expiring at the 2010 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 2008 or 2009 Annual Meeting of Shareholders, as the case may be.

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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 2010

Frank Keating, 63, has been a director of the Company since June 2003. Governor Keating has been the President and Chief Executive Officer 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 25th Governor and served two consecutive four-year terms. Governor Keating is an advisory director of Stewart Information Services Corp (STC), a real estate information and transaction management company located in Houston, Texas. Governor Keating graduated from Georgetown University in 1966 and from the University of Oklahoma College of Law in 1969.

Frederick B. Whittemore, 76, 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 graduated from Dartmouth College in 1953 and from the Amos Tuck School of Business Administration in 1954.

Merrill A. Pete Miller, Jr., 56, has been a director of the Company since January 16, 2007. Mr. Miller is Chairman, President and Chief Executive Officer of National Oilwell Varco, Inc. (NYSE:NOV), a supplier of oilfield services, equipment and components to the worldwide oil and natural gas industry. Mr. Miller joined National Oilwell in February 1996 as Vice President of Marketing, Drilling Systems and was promoted in April 1997 to President of the company's products and technology group. In November 2000, he was named President and Chief Operating Officer, in May 2001 was elected President and Chief Executive Officer and in May 2002 was also elected Chairman of the Board. Mr. Miller served as President of Anadarko Drilling Company from 1995 to 1996. Prior to his service at Anadarko, Mr. Miller spent fifteen years at Helmerich & Payne International Drilling Company in Tulsa, Oklahoma, serving in various senior management positions, including Vice President, U.S. Operations. Mr. Miller graduated from the United States Military Academy, West Point, New York in 1972 with a degree in applied science and engineering. Upon graduation, he served five years in the United States Army and received his MBA from Harvard Business School in 1980. Mr. Miller serves on the Board of Directors for the Offshore Energy Center, Petroleum Equipment Suppliers Association and Spindletop International, and is a member of the National Petroleum Council.

Directors Whose Terms Expire in 2008

Don Nickles, 58, 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

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Nickles was elected to represent Oklahoma in the United States Senate from 1980 to 2005 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 International Group (OTCBB:FAAC), a company based in Columbia, Maryland which provides specialized security services. Senator Nickles served in the National Guard from 1970 to 1976 and graduated from Oklahoma State University in 1971.

Aubrey K. McClendon, 47, 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. He is a member of the National Petroleum Council and the Domestic Petroleum Council. Mr. McClendon graduated from Duke University in 1981.

Directors Whose Terms Expire in 2009

Breene M. Kerr, 78, 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, 75, has been a director of the Company since 2002. Mr. Maxwell is a Senior Energy Analyst and has been with Weeden & Co., an institutional brokerage firm located in Greenwich, Connecticut, from late 1999 to the present. Entering the oil and natural gas industry in 1957, Mr. Maxwell worked for what is now ExxonMobil for eleven 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. He 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 after it was acquired by Deutsche Bank. Mr. Maxwell is a director of Daleco Resources Corporation (DLOV.OB), a minerals exploration and production company located in West Chester, Pennsylvania; Lescarden, Inc. (LCAR.OB), a biotechnology company in New York; and American DG Energy Inc., a 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, 65, has been a member of our Board of Directors since March 2006. Mr. Davidson served as Chairman of the Board of Directors of Union Pacific Corporation (NYSE: UNP) from 1997 until February 2007 and as its Chief Executive Officer from 1997 until February 2006. He started his railroad 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.

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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 Chief Executive Officer of Union Pacific Corporation in 1997. Mr. Davidson is currently a member of the board of advisors of Thayer Capital Partners and the Horatio Alger Association of Distinguished Americans. He formerly served on the board of the Association of American Railroads, as chairman of the President's National Infrastructure Advisory Council, and as a director and trustee of the Malcolm Baldrige National Quality Awards Foundation. Mr. Davidson graduated from Washburn University in 1966 and has completed the Program for Management Development at Harvard University.

VOTING ITEM 2 PROPOSAL TO AMEND LONG TERM INCENTIVE PLAN

We are asking shareholders to vote to approve an 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 7,000,000 shares to 17,000,000 shares. The additional shares requested will allow the Company to deliver restricted shares to its employees pursuant to the 2006 Long Term Incentive Program (described below) and to continue to provide stock-based compensation to its employees, consultants and non-employee directors over the next year at current award levels.

Our shareholders initially approved the LTIP on June 10, 2005 and approved an amendment to the LTIP on June 9, 2006. Our Board approved the amendment, subject to shareholder approval at the meeting, on March 2, 2007. The full text of the LTIP, as amended, is included as Exhibit A to this proxy statement.

Over the last 25 years, industry and global economic factors have resulted in a significant drop-off in enrollment in critical technical undergraduate programs such as petroleum engineering and geoscience. While enrollment is now increasing in those areas, the outcome has been a well-documented "experience gap". U.S.-based energy companies find themselves with a predominance of technical staff that is approaching retirement and only relatively inexperienced staff on hand to replace them.

At the same time, increasing demand for energy has created an environment of tremendous competition for new talent as well as experienced industry specialists. The Company's management believes that in order to effectively execute our business strategy, it is essential for us to manage our talent by 1) attracting top-notch new industry professionals; 2) rewarding and retaining our experienced professionals; and 3) properly developing our less experienced professionals and assuring the transfer of knowledge from the experienced staff to the less-experienced.

For the past several years, Chesapeake has been meeting this talent challenge through a comprehensive human resource strategy that addresses the problem on multiple fronts - from developing our own training program for rig hands and land brokers to investing in partnerships with colleges and universities across the country to encourage students to pursue careers in energy-related fields and providing compensation packages that attract, motivate and retain top talent. We have also built a culture rich with opportunity while promoting work-life balance and we have invested in the communities where we operate and where our employees live. Such a culture makes Chesapeake the employer of choice when we are recruiting new talent.

One key component of our human resource strategy is to reward and retain our workforce through the issuance of restricted stock awards. 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;

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

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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.

In August 2006, in response to intense competitive pressures in the oil and gas industry for employees as described above, Chesapeake implemented an employee retention program we refer to as the 2006 Long Term Incentive Program or 2006 Program. Under this program, we will make cash payments to the employees of our drilling subsidiaries and issue shares of restricted common stock to all other employees (other than employees who are subject to a collective bargaining arrangement) under the LTIP. One-half of the cash payments promised to our drilling subsidiary employees will be paid three years from the date promised and the remaining payments will be made five years from the date promised. The restricted shares to be granted under the 2006 Program will vest 50% after a three-year period and 50% after a five-year period. Employees who terminate employment prior to the vesting dates will not receive unvested cash or restricted stock. The restricted shares to be issued pursuant to the 2006 program are subject to shareholder approval of the amendment and therefore are not currently issued and outstanding. As of the record date, future cash payments and restricted stock to be issued under the 2006 Program totaled \$14.3 million and 9.9 million shares, respectively. In accordance with SFAS 123(R), awards made under an arrangement that is subject to shareholder approval are not deemed to be granted until that approval is obtained. The date upon which we receive shareholder approval of the amendment will be the date of grant for these shares. **Awards to our named executive officers under this program will total 289,310 shares or less than 3% of the total program (see table on page 14). Our Chief Executive Officer and our Chief Financial Officer voluntarily elected not to receive awards of restricted stock under this program to make more shares available for other employees.**

The additional 10,000,000 shares of common stock the Board has reserved for issuance under the LTIP pursuant to the amendment represents 2.2% of our outstanding common shares and less than 2.0% 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, including our obligations under the 2006 Program, are the following:

	LTIP	2003 Stock Incentive Plan	2003 Director Stock Award Plan(1)	Terminated Plans	Total
Outstanding stock options, 12/31/06	125,000			6,480,703	6,605,703
Granted					
Exercised				(602,887)	(602,887)
Canceled/forfeited				(6,798)	(6,798)
Outstanding stock options, 4/16/07	125,000			5,871,018	5,996,018
Shares available for future awards, 12/31/06	6,660,759	58,883	20,000		6,739,642
Regular semi-annual and new hire awards	(2,486,220)(2)	(107,825)(2)	(10,000)		(2,604,045)
2006 Long Term Incentive Program awards(3)	(9,868,668)				(9,868,668)
Canceled/forfeited/traded for taxes	29,427	324,099			353,526
Shares available for future awards, 4/16/07	(5,664,702)	275,157	10,000		(5,379,545)
Shares available for future awards if amendment is approved by shareholders, 4/16/07	4,335,298	275,157	10,000		4,620,455

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- (1) The 2003 Stock Award Plan for Non-Employee Directors is used to issue 10,000 shares of common stock to new directors upon their appointment to the Board.
- (2) Amounts represent shares of restricted stock awarded company-wide on January 3, 2007 and to newly hired employees on the last trading days of January, February and March 2007.
- (3) The 2006 Long Term Incentive Program awards are subject to shareholder approval of the amendment.

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. Additionally, our senior management is required to hold certain levels of our common stock as a condition to their continued employment. 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 13th 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;

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

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

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

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

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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, have delivered strong performance to our shareholders since 2003, as indicated by the following:

Our stock price increased 114% from \$13.58 per share on December 31, 2003 to \$29.05 per share on December 31, 2006 and was \$33.63 on the record date, an increase of 16% from December 31, 2006;

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Our annual revenues increased 327% from \$1.7 billion in 2003 to \$7.3 billion in 2006;

Our net income available to common shareholders increased 555% from \$291 million in 2003 to \$1.9 billion in 2006;

Our total assets increased 430% from \$4.6 billion at December 31, 2003 to \$24.4 billion at December 31, 2006;

Our proved oil and natural gas reserves increased 181% from 3.2 tcf at December 31, 2003 to 9.0 tcf at December 31, 2006;

Our annual oil and natural gas production increased 116% from 268 bcf in 2003 to 578 bcf in 2006;

We were selected to join the Fortune 500 and the S&P 500 in 2006; and

We were recognized by Forbes as the best managed oil & gas company in the U.S. in January 2007.

As the Company's assets and revenues have grown, so have the number of employees, with the Company now employing almost 5,000 employees, an addition of 3,700 employees since 2003, a 310% increase. The rapid growth of the Company, combined with the extreme competition in the industry for top-notch talent, as discussed previously, has dramatically increased the importance of equity-based compensation as a key component for 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.

The following is a summary of the material terms of the LTIP as proposed to be amended. The only amendment to the LTIP is the increase in the number of shares of common stock available for issuance.

Plan Features

Administration. The Compensation Committee of the Board of Directors has overall authority to administer the LTIP. The Employee Compensation and Benefits Committee (the ECBC), a subcommittee of the Compensation Committee, can be 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 ECBC are collectively, the Committee. Mr. Whittemore and Governor Keating serve as the Compensation Committee and Mr. McClendon serves as the ECBC. 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 5,000 employees (nine of whom were executive officers) and seven 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 17,000,000 shares, an increase of 10,000,000 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. The aggregate number of shares of common stock underlying options and stock appreciation rights 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

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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.

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 on the date of grant.

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