

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

(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:**

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

3) **Filing Party:**

4) **Date Filed:**

Table of Contents

CHESAPEAKE ENERGY CORPORATION

6100 North Western Avenue

Oklahoma City, Oklahoma 73118

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On June 9, 2006

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; 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 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; 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. 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 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

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 25th 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.

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 ⁽¹⁾	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)
Outstanding stock options, 4/17/06	162,500			11,619,845	11,782,345
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
Shares available for future awards, 4/17/06	2,737,500	2,040,953	20,000		4,798,453

(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 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;

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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 bcfe to 3.2 tcf; and

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

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.