CHESAPEAKE ENERGY CORP
Form DEF 14A
April 29, 2011
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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 x

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))**

x **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):

x **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:

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6100 North Western Avenue

Oklahoma City, Oklahoma 73118

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On June 10, 2011

The 2011 annual meeting of shareholders of Chesapeake Energy Corporation, an Oklahoma corporation (the Company), will be held at Chesapeake Energy Corporation, 6100 North Western Avenue, Oklahoma City, Oklahoma, on Friday, June 10, 2011 at 10:00 a.m., Central Daylight Time, to consider and act upon the following matters:

1. To elect four directors, three for three-year terms and one for a two-year term;

2. To approve an amendment to our Long Term Incentive Plan;

3. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2011;

4. An advisory vote on executive compensation;

5. An advisory vote on the frequency of holding an advisory vote on executive compensation;

6. To consider one shareholder proposal, if properly presented at the meeting; and

7. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Holders of record of the Company s common stock at the close of business on April 15, 2011 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. A map of our Oklahoma City campus and parking instructions are available on our website at *www.chk.com/proxy*.

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 OF RECORD 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.chk.com.*

BY ORDER OF THE BOARD OF DIRECTORS

Jennifer M. Grigsby

Senior Vice President, Treasurer and

Corporate Secretary

Oklahoma City, Oklahoma

May 12, 2011

Important Notice Regarding the Availability of Proxy Materials

For the Shareholder Meeting to be Held on June 10, 2011:

This Proxy Statement and the Company s Annual Report for 2010 are available at:

http://www.chk.com/proxy

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Proxy Statement Summary

This summary highlights information contained elsewhere in this proxy statement and in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 (the Company s 2010 Form 10-K). You should read the entire proxy statement and the Company s 2010 Form 10-K carefully before voting.

Annual Meeting of Shareholders

Time and Date:	10:00 a.m. CDT; June 10, 2011
Place:	Chesapeake Energy Corporation 6100 North Western Avenue Oklahoma City, Oklahoma
Record Date:	April 15, 2011
Voting:	Shareholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the proposals to be voted on.

Meeting Agenda

Election of four directors

Amendment of Long Term Incentive Plan

Ratification of PricewaterhouseCoopers LLP as independent registered public accounting firm for 2011

Advisory vote on executive compensation

Advisory vote on frequency of future advisory votes on executive compensation

Vote on one shareholder proposal

Transact other business that may properly come before the meeting

Voting Matters

Matter	**Board Vote Recommendation**	**Page Reference (for more detail)**
Election of Directors	FOR EACH DIRECTOR NOMINEE	8
Management Proposals		
Amendment of Long Term Incentive Plan	FOR	63
	FOR	71

Ratification of PricewaterhouseCoopers LLP as Independent Registered Public Accounting Firm for 2011		
Advisory Vote on Executive Compensation	FOR	72
Advisory Vote on Frequency of Future Advisory Votes on Executive Compensation	FOR EVERY YEAR	73
Shareholder Proposal		
Requesting an Advisory Shareholder Vote on Director Compensation	AGAINST	75

Board Nominees

The following table provides summary information about each director who is nominated for election. Each director nominee, with the exception of Mr. Simpson, will serve terms expiring at the 2014 annual meeting of shareholders and until their successors are elected and qualified. Mr. Simpson will serve a term expiring at the 2013 annual meeting of shareholders and until his successor is elected and qualified.

						Committee Assignments		
Name	**Age**	**Director Since**	**Occupation**	**Experience/ Qualification**	**Independent**	**Audit**	**Comp**	**Gov**
Aubrey K. McClendon	51	1989	Co-Founder, Chairman and CEO Chesapeake Energy Corporation	Leadership Industry International Technology				
Don Nickles	62	2005	Founder and President The Nickles Group	Leadership Government Industry Finance	X			X
Kathleen M. Eisbrenner	50	2010	Founder and Chief Executive Officer Next Decade	Leadership Industry International Marketing	X		X	X
Louis A. Simpson	74	-	Chairman SQ Advisors, LLC	Leadership Finance International Technology	X			

Attendance In 2010, Messrs. McClendon and Nickles attended 100% of the Board meetings and, in the case of Mr. Nickles, meetings of the committee on which he sits. Ms. Eisbrenner was appointed in December 2010 and thereafter attended 100% of the Board meetings and meetings of the committees on which she sits.

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Corporate Governance Highlights

The Board believes that effective corporate governance should reinforce a culture of corporate integrity, foster the Company s pursuit of long-term strategic goals of growth and profit and ensure quality and continuity of corporate leadership. In light of this belief, the Board has recently implemented several enhancements in the corporate governance of the Company. Specifically, the Board has:

- appointed a Lead Independent Director who participates in the process of preparing meeting agendas and schedules and presides over executive sessions of the Board of Directors;
- engaged Cogent Compensation Partners, an independent compensation consultant;
- eliminated excise tax gross-ups from awards granted under our Long Term Incentive Plan (LTIP);
- prohibited certain derivative and speculative transactions involving Company stock by executive officers and directors;
- enhanced shareholder outreach on corporate governance matters;
- committed to enhanced sustainability disclosures;
- encouraged the Company s recent adoption of operational principles implementing progressive operational, environmental and safety standards for employees, contractors, suppliers and vendors to guide our natural gas and liquids exploration and production operations; and
- encouraged the Company s recent participation in a national, publicly accessible, web-based registry to report the additives used in the hydraulic fracturing process.

In addition, the Board has determined after careful consideration that it is in the best interest of the Company to introduce a management proposal at the 2012 annual meeting of shareholders which, if passed, will implement majority voting in director elections beginning with our 2013 annual meeting of shareholders.

Auditors

As a matter of good corporate governance, we are asking our shareholders to ratify the selection of PricewaterhouseCoopers LLP (PwC) as our independent registered public accounting firm for 2011.

Executive Compensation Advisory Vote and Its Frequency

We are asking our shareholders to approve on an advisory basis our named executive officer (NEO) compensation. The Board recommends a FOR vote because it believes that our compensation policies and practices are effective in achieving the Company s goals of (i) attracting, retaining and motivating executive officers who perform at a high level, (ii) aligning the executives interests with those of our shareholders and (iii) encouraging a short-term and long-term focus, with an emphasis on avoiding excessive risk taking. NEO compensation reflects amounts of cash and long-term incentive compensation consistent with the strong operational results and performance of the Company despite continued market challenges impacting the natural gas and oil industry.

The Board recommends that shareholders vote in favor of holding the advisory vote on executive compensation EVERY YEAR.

Executive Compensation Elements

Type	**Form**	**Awards and Terms**
Cash	Base Salary	Adjustments considered semi-annually based on performance review
	Bonus	Awards considered semi-annually based on performance review
Equity	Restricted Stock	Awards considered semi-annually based on performance review; vests ratably over period of four years to incentivize future performance
Retirement	401(k) Plan Matching Contributions	Company matches up to 15% of employee contributions in Company stock; employee vests in Company matches over a five-year period
	Deferred Compensation Plan Matching Contributions	Company matches up to 15% of eligible employee contributions in Company stock; matches vest ratably over five years
Other	Perquisites and Benefits	Life insurance, financial services, transportation, home security, club dues

2010 Executive Compensation Mix

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Business Highlights

Financial Performance. Over the last decade, the Company has achieved great financial success, increasing revenues by approximately 870% from $969 million in 2001 to $9.4 billion in 2010 and net income by approximately 670% from $215 million in 2001 to $1.7 billion in 2010.

In addition, the Company has weathered the recent global financial crisis, during which natural gas prices declined as much as 80%, with strong operational and financial results. The Company has grown production and reserves significantly since 2008, as illustrated below.

The Company has also delivered strong financial performance during the same period, with net income and net income per share in 2010 increasing by 230% and 170%, respectively, when compared to 2008.

Asset Monetizations. Our asset monetizations have created enormous value for the Company. Since 2008, we have entered into joint ventures with Plains Exploration & Production Company, BP, Statoil, Total, CNOOC, and significant divestiture transactions with BP and BHP Billiton. Collectively, we have sold these companies certain assets for aggregate consideration of $20.5 billion in the form of cash and drilling and completion carries, for which our net cost was only $6.1 billion, resulting in value creation of approximately $14.4 billion. These transactions have been truly outstanding for Chesapeake, providing us an attractive source of capital, reduced risks, a quick recovery of our leasehold investment in new plays and a much greater ability to capture a large resource base with decades of highly profitable drilling opportunities. The chart below illustrates how profitable the joint venture arrangements have been over the last three years.

Particular asset monetizations of note since January 2010 include:

(i) three joint venture arrangements, one with Total and two with CNOOC, for aggregate consideration of approximately $5.7 billion, against a net cost of approximately $2.3 billion;

(ii) the sale of our Fayetteville Shale assets in March 2011 for net proceeds of approximately $4.6 billion, against a net cost of approximately $700 million; and

(iii) the sale of our Springridge gas gathering system and related facilities in the Haynesville Shale in December 2010 for $500 million to Chesapeake Midstream Partners, L.P., which we and Global Infrastructure Partners formed to own, operate, develop and acquire midstream assets.

Hedging. As a result of the Company s innovative hedging strategy, in 2010, the Company realized industry-leading hedging gains of approximately $2.1 billion, bringing our total hedging gains in the last decade to $6.5 billion.

25/25 Plan. The Company has developed and announced its 25/25 Plan, which provides for a number of initiatives to allow us to reduce our outstanding long-term indebtedness by 25% by the end of 2012 while still delivering a two-year net production growth rate of 25% that is expected to be one of the best among our large-cap industry peers. To further this effort, in April 2011, the Company commenced cash tender offers for up to an aggregate $2.0 billion of its senior notes and contingent convertible senior notes.

Stock Price. The Company has delivered both strong long-term and short-term performance despite the tendency of our stock price to be correlated with U.S. natural gas prices, which have been highly volatile over the last decade. For the period beginning in January 2000 and ending on March 31, 2011, our stock price has increased by 1,241%, as reflected by the arrow below, while natural gas prices have increased by only 59%.

Over the short term, we believe the success of our efforts has begun to be reflected in our stock price, which has increased by more than 50% in the last six months.

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2010 Executive Compensation Decisions

The Company s success is a direct result of the actions taken by our Chief Executive Officer, Aubrey K. McClendon, and the Chesapeake senior management team. Under Mr. McClendon s leadership, the Company has delivered strong operational results and performance despite continued market challenges impacting the natural gas and oil industry. Rather than passively watch declining U.S. natural gas prices negatively affect the Company s financial performance, Mr. McClendon led the Company in shifting our strategy from a primary focus on natural gas to a balanced focus on both natural gas and liquids, applying the geoscientific and horizontal drilling expertise we have developed in our natural gas shale plays to unconventional liquids-rich reservoirs. We have entered into multiple joint venture arrangements which have allowed us to monetize a portion of our natural gas and liquids resource base and develop our resources at a lower cost by harvesting the carries received under these arrangements. We believe that Mr. McClendon s continued leadership, and the consistent effort of our senior management team, have positioned the Company very favorably to carry on its pioneering approach to generating superior performance for the next decade and beyond. In recognition of the tremendous value added to the Company by Mr. McClendon over his tenure as CEO, he was recently named to Forbes CEO 20-20 Club , an elite list of eight chief executives who have at least 20 years of service as chief executive and produced at least 20% annual return to shareholders during their tenure, as calculated by Forbes.

A majority of the compensation of our senior management team, including Mr. McClendon, is equity-based because the Compensation Committee of our Board believes that such compensation provides the greatest incentive to focus on the Company s long-term performance and increases shareholder value by aligning the interests of our senior management with those of our shareholders. Despite the Company s success, Mr. McClendon s salary and bonus have remained flat at $975,000 and $1,951,000, respectively, since 2008 and, pursuant to his employment agreement, may not exceed those levels until 2014. The Compensation Committee reduced the amount of restricted stock awarded to Mr. McClendon in 2010 compared to 2009 by 110,000 shares, to a total of 650,000 shares, to account for the growth in the Company s stock price in 2010 compared to 2009. Compensation increases in 2010 for the other NEOs reflect their strong contributions to the Company s overall performance and that of their respective businesses or function. Our stock price increase similarly affected total compensation for our other NEOs.

2010 Executive Compensation Summary

Set forth below is the 2010 compensation, as determined under the rules of the Securities and Exchange Commission (the SEC), for each NEO who remained employed by the Company as of December 31, 2010. The SEC s calculation of total compensation (reflected in the column entitled Total Compensation) includes several items that are driven by accounting and other assumptions, which are not necessarily reflective of compensation actually realized by the NEOs in 2010. To supplement the SEC-required disclosure, we have therefore included an additional column in the table below entitled Total Realized Compensation, which shows total compensation realized by each NEO in 2010.

Name and Principal Position	Salary	Bonus	Stock Awards	All Other Compensation	Total Compensation	Total Realized Compensation(a)
Aubrey K. McClendon Chairman of the Board and CEO	$ 975,000	$ 1,951,000	$ 16,804,500	$ 1,314,452	$ 21,044,952	$ 19,768,776
Domenic J. (Nick) Dell Osso, Jr. Executive Vice President and CFO	353,385	651,000	1,444,420	60,254	2,509,059	1,197,946
Steven C. Dixon Executive Vice President Operations and Geosciences and COO	860,000	3,764,125	5,099,200	697,969	10,421,294	9,857,163
Douglas J. Jacobson Executive Vice President Acquisitions and Divestitures	800,000	3,604,125	4,016,900	541,912	8,962,936	6,480,522
Martha A. Burger						

Senior Vice President   Human and Corporate Resources