

CHESAPEAKE ENERGY CORP  
Form DEF 14A  
May 03, 2013

**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

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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):
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- (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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Letter to Shareholders From our Board of Directors  
DEAR FELLOW SHAREHOLDER,

The past year has been a defining period for Chesapeake. The makeup of our Board has changed substantially, with a new independent non-executive Chairman and six other independent directors appointed in the last twelve months. In addition, the Company saw the implementation of a CEO succession plan with regard to its co-founder, Aubrey K. McClendon. While we continue the search for the Company's next CEO, our Board recently formed a three-person Office of the Chairman that will continue to lead the Company's strategy to develop our existing assets, optimize our portfolio through targeted asset sales, strengthen our balance sheet and drive capital efficiencies throughout our organization. We believe Chesapeake's brightest days lie ahead, and we look forward to delivering maximum value to shareholders as we develop our exceptional asset base.

We view our proxy statement as a vital communications opportunity; therefore, we endeavor to provide our investors with fulsome information using plain language in a format that is clear and easy to read. We invite you to read the governance highlights that follow this letter, which supply a roadmap for our proxy statement and provide detail on the Company's significant changes over the past year in the areas of corporate governance and executive compensation. We encourage you to read the entire proxy statement and our annual report carefully before voting.

#### Optimal Corporate Governance Practices

As you will see throughout the governance highlights and proxy statement, we are committed to maintaining corporate governance practices that are optimal for the Company. Over the past year, we have implemented governance reforms focused on enhancing financial and management oversight, Board accountability to shareholders and corporate responsibility. We have also continued to build on the Company's engagement and outreach efforts over the past few years, further emphasizing our belief that shareholders are key participants in the governance process.

#### Aligning Pay and Performance

As a part of our commitment to exceptional governance practices, we want to ensure that the Company's executive compensation programs appropriately tie executive pay to Company performance. With the assistance of an independent compensation consultant, our Compensation Committee undertook a comprehensive review of the Company's executive compensation programs. As more fully described in the governance highlights and proxy statement, the Committee has implemented substantial changes designed to optimize alignment of our executives' interests with those of our shareholders, including using formulaic annual and long-term performance-based incentive plans and ending substantially all perquisites.

#### Promising Future

After a difficult year in which we saw decade-low natural gas prices and experienced unprecedented scrutiny, Chesapeake has emerged as a strong company with a promising future. We believe that our corporate governance and executive compensation reforms further strengthen the Company by enhancing oversight and accountability. As we look ahead, we are excited about the tremendous value creation opportunities in front of us as our dedicated management team continues to execute on our business strategy. As stewards of the Company, we are committed to acting in the best interests of Chesapeake and all its shareholders. Thank you for your investment.

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Archie W. Dunham	Bob	Vincent	R. Brad
<i>Chairman of the Board</i>	G. Alexander	J. Intrieri	Martin
Merrill A. "Pete"	Frederic	Louis	Thomas
Miller, JR.	M. Poses	A. Raspino	L. Ryan

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Governance Highlights

## CORPORATE GOVERNANCE

The Board exists to serve the long-term interests of the Company and its shareholders. The Board takes this responsibility seriously and believes a key component of its role at the Company is to establish an effective corporate governance model. In the past year, the Board has implemented governance reforms focused on enhancing financial and management oversight, Board accountability to shareholders and corporate responsibility. The Board also endeavors to continually improve its shareholder outreach efforts and provide a clear understanding of the Company's corporate governance, as demonstrated by our efforts to make our proxy statement more useful to shareholders.

Ensuring Good Governance

In little more than a year, the Company has taken great strides to maximize oversight and accountability to shareholders. This underscores the Board's commitment to maintaining leading corporate governance practices that are in the best interests of Chesapeake and its shareholders.

Chesapeake Governance Evolution

**CHESAPEAKE ENERGY CORPORATION – Governance Highlights 2**

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## Board Leadership Structure

The Company's leadership structure has evolved over the past year with the separation of the Chairman and CEO roles and appointment of Archie W. Dunham as the Company's independent, non-executive Chairman of the Board. Through the appointment of a non-executive Chairman, the Board has further strengthened its independent leadership, which the Board believes is a critical aspect of effective governance. On March 29, 2013, the Company announced the establishment of a three-person Office of the Chairman while the Board continues its search for the Company's next CEO. The Office of the Chairman consists of Mr. Dunham, Steven C. Dixon, the Company's Acting CEO and Chief Operating Officer, and Domenic J. Dell'Osso, Jr., the Company's Executive Vice President and Chief Financial Officer. The Office of the Chairman provides oversight of strategic, operational and financial matters as well as certain day-to-day management responsibilities.

See page 5 of the proxy statement for more details on the Company's Board leadership structure.

**CHESAPEAKE ENERGY CORPORATION** – *Governance Highlights* **3**

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## Members of the Chesapeake Board

The Board has changed significantly over the past year. In June 2012, the Board appointed an independent, non-executive Chairman and four other new independent directors. The Board also recently appointed Louis A. Raspino to the Board and as the chairman of the Audit Committee and Thomas L. Ryan to the Board and as a member of the Audit Committee. As the Company has previously announced, shareholders will vote on all directors at the 2013 annual meeting. The Board believes that each member of the Board is well qualified to guide the Company in maximizing shareholder value.

## Board Balance

The Board seeks a mix of directors with the qualities that will achieve the ultimate goal of a well-rounded, diverse Board that thinks critically yet functions effectively by reaching informed decisions. The Nominating, Governance and Social Responsibility Committee's charter was recently amended to ensure that diverse candidates are included in all director searches, taking into account race, gender, age, culture, thought and geography. The Committee and the Board believe that a boardroom with a wide array of talents and perspectives leads to innovation, critical thinking and enhanced discussion. Additionally, the Committee expects each of the Company's directors to have proven leadership, sound judgment, integrity and a commitment to the success of the Company. The charts below illustrate the Board's tenure, experience and qualifications.

## Tenure, Experience and Qualifications

See page 9 of the proxy statement for the biographies of each of the Company's directors.

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## CREATING SHAREHOLDER VALUE

2012 was a year of substantial accomplishment. The Company continued its transition to an operational focus on asset development, having concluded its large-scale leasehold acquisition phase, and exited ancillary businesses that are no longer integral parts of its overall business strategy. Further, low natural gas prices in 2012 and early 2013 confirmed the Company's strategy, initiated in 2011, to focus on increasing liquids production. In 2012, the Company executed asset sales of approximately \$12 billion of assets and delivered one of the best liquids growth stories in the industry, with liquids production up approximately 54% on average relative to 2011.

### Key 2012 Operational Achievements

In 2012, Chesapeake delivered the following major operational accomplishments:

- 

We increased liquids production by 54%, or approximately 46,770 bbls per day. Chesapeake's year-over-year oil production growth was 84%, or approximately 38,950 bbls per day, and natural gas liquids production growth was 19%, or approximately 7,820 bbls per day.

- 

We increased production by 19% (net of asset sales) to an average of 3.89 bcfe per day, consisting of approximately 3.08 bcf of natural gas (80% on a natural gas equivalent basis) and approximately 133,550 bbls of liquids, consisting of approximately 85,420 bbls of oil (13% on a natural gas equivalent basis) and approximately 48,130 bbls of natural gas liquids (7% on a natural gas equivalent basis).

- 

We added 5.0 tcf, or 840 million barrels of oil equivalent (mmboe), of new proved reserves (net of nonprice-related revisions) through the drillbit; however, primarily as a result of lower natural gas prices, the Company recorded downward price-related revisions of 5.4 tcf, or 902 mmboe, during 2012.

### Core of the Core Strategy

In 2012, we embarked on a two-year asset divestiture program to fund our capital expenditures, reduce our financial leverage and focus our operational efforts on our best plays. In pursuing our "core of the core" strategy, we sold nearly \$12 billion of assets and built on already strong liquids production growth and cost discipline trends. Some of our major asset sales in 2012 included:

- 

Sale of Permian Basin assets in three separate transactions for total net cash proceeds of approximately \$3.1 billion plus \$466 million of additional consideration, substantially all of which we have received or expect to receive in 2013.

-

Sale of all of our interests in Chesapeake Midstream Partners, L.P., now Access Midstream Partners, L.P., and the sole member of its general partner for cash proceeds of \$2.0 billion.

•

Sale of Chesapeake Midstream Operating, L.L.C., which held a substantial majority of our midstream business, to Access Midstream Partners, L.P. for cash proceeds of approximately \$2.2 billion, subject to post-closing adjustments.

•

Monetization of certain of our producing assets in the Anadarko Basin Granite Wash through a ten-year volumetric production payment for proceeds of approximately \$744 million.

For more information regarding the Company's performance, see our 2012 annual report.

**CHESAPEAKE ENERGY CORPORATION** – *Governance Highlights* **5**

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## ALIGNING PAY AND PERFORMANCE

### Response to 2012 “Say on Pay” Vote

At our 2012 annual meeting of shareholders, approximately 80% of shares were cast “against” our named executive officer compensation. Shortly thereafter, in June 2012, the Board appointed five new independent directors, as discussed earlier in these governance highlights. The Compensation Committee, entirely comprised of new members, two of which were appointed to the Board at the recommendation of our largest shareholder, considered the results of the advisory vote and believed it conveyed our shareholders’ dissatisfaction with the Company’s executive compensation in light of performance. The Compensation Committee engaged in a comprehensive review of the Company’s executive compensation system, considering the outcome from the 2012 annual meeting as well as ongoing dialogue with our shareholders, with a goal of ensuring that the Company’s compensation programs appropriately tie executive pay to Company performance. To assist in its review, the Compensation Committee engaged Frederic W. Cook & Co., Inc. as its independent compensation consultant.

### **The Compensation Committee’s decisions regarding the Company’s executive compensation system in 2012 included the following:**

- Reduced 2012 total CEO compensation by approximately \$1 million, including no 2012 annual incentive compensation, following a reduction of 2011 total CEO compensation of over \$3 million.
- Pursued a compensation philosophy that emphasizes pay for performance and targets peer median compensation levels.
- Exercised downward discretion to further reduce payouts calculated based on a formulaic assessment of Company performance under the annual incentive program in 2012 to an average of approximately 50% of 2011 annual incentive payouts for the named executive officers and, after considering Mr. McClendon’s recommendation to such effect, awarded no annual incentive compensation to Mr. McClendon.
- Held base salaries flat in 2012 for the majority of our named executive officers.
- Entered into new executive employment agreements that contain substantial changes, including the elimination of “single-trigger” change-of-control cash payments and cash payments upon death or disability.
- Significantly reduced perquisites for executive officers, including eliminating, or further limiting in the case of Mr. McClendon, personal use of fractionally owned Company aircraft.

**Additional traits of the redesigned executive compensation system are summarized below, with asterisks indicating new or enhanced elements of the compensation system since the beginning of 2012:**

**What We Do**

Award annual incentive compensation and over 50% of long-term compensation subject to achievement of objective pre-established performance goals tied to operational and strategic objectives\*

**What We Don't Do**

No tax gross ups for executive officers

**CHESAPEAKE ENERGY CORPORATION – Governance Highlights 6**

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### 2012 Pay for Performance Alignment

For 2012, the Compensation Committee adopted a comprehensive, market-based approach to the design and administration of our executive compensation system that is linked to the Company's strategic plan. As shown below, our redesigned compensation system continues to utilize base salary and restricted stock awards and features the following performance-based components: (i) annual incentive awards and (ii) performance share unit (PSU) awards under our Long Term Incentive Plan.

Under our 2012 performance-based executive compensation system, we have:

- Introduced a substantial portion of "at-risk" compensation
- Replaced annual discretionary cash bonuses with performance-based annual incentive awards
- Reformulated long-term incentive awards to include a mix of PSU awards and restricted stock awards
- Allocated a substantial portion of the total compensation for each executive officer to compensation elements that align the interests of our executive officers with our shareholders

### 2013 Executive Compensation System

For 2013, the connection between pay and performance is further reflected in the Compensation Committee's executive compensation decisions, including:

- Entered into new executive employment agreements that contain substantial changes from the Company's previous executive employment agreements, including the elimination of "single-trigger" change-of-control cash payments and cash payments upon death or disability.
- Maintained base salaries at 2012 levels, except with regard to Mr. Dixon, whose base salary was increased in connection with his appointment as Acting CEO effective April 1, 2013.
- Implemented a new Annual Incentive Plan and based annual incentive opportunities on the Company's performance relative to eleven pre-established objective operational and financial performance goals.

- Reduced target payout of long-term incentive awards for named executive officers by approximately 10% from 2012 target levels.

#### CEO Separation Arrangements

On April 1, 2013, Mr. McClendon ceased serving as President and CEO of the Company and as a director of its Board. On April 18, 2013, the Company and Mr. McClendon entered into a Founder Separation and Services Agreement, effective January 29, 2013. The agreement provides that Mr. McClendon will receive all of the rights, benefits and obligations owed to him for a termination without cause under his employment agreement.

For more information regarding our executive compensation, please refer to page 24 of our proxy statement.

**CHESAPEAKE ENERGY CORPORATION** – *Governance Highlights* **7**

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## 2013 ANNUAL MEETING OF SHAREHOLDERS

Please cast your vote right away on all of the proposals listed below to ensure that your shares are represented.

## Vote Right Away

Even if you plan to attend our annual meeting in person, please read this proxy statement with care and vote right away using any of the following methods. **In all cases, have your proxy card or voting instruction form in hand and follow the instructions.**

		<b>More information</b>	<b>Board recommendation</b>	<b>Votes required for approval</b>
<b>PROPOSAL 1</b>	To elect directors	Page 8	FOR each nominee	50% of votes cast
<b>PROPOSAL 2</b>	To vote on a proposal to declassify our Board	Page 12	FOR	66 2/3% issued and outstanding
<b>PROPOSAL 3</b>	To vote on a proposal to implement proxy access	Page 13	FOR	66 2/3% issued and outstanding
<b>PROPOSAL 4</b>	To vote on a proposal to eliminate supermajority voting requirements	Page 15	FOR	66 2/3% issued and outstanding
<b>PROPOSAL 5</b>	To vote on a proposal to amend our 2003 Stock Award Plan for Non-Employee Directors	Page 18	FOR	Majority of votes cast*
<b>PROPOSAL 6</b>	To approve our named executive officer compensation	Page 55	FOR	Majority of votes cast
<b>PROPOSAL 7</b>	To vote on a proposal to amend our Long Term Incentive Plan	Page 56	FOR	Majority of votes cast*
<b>PROPOSAL 8</b>	To vote on a proposal to adopt our Annual Incentive Plan	Page 61	FOR	Majority of votes cast
<b>PROPOSAL 9</b>	To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm	Page 64	FOR	Majority of votes cast
<b>PROPOSALS 10-12</b>	Shareholder proposals	Pages 65-69	AGAINST each proposal	Majority of votes cast

\* Total votes cast also must represent a majority of shares entitled to vote.



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Notice of Annual Meeting of Shareholders  
June 14, 2013

10:00 a.m.

Chesapeake Energy Corporation, 6100 North Western Avenue, Oklahoma City, Oklahoma

To the Shareholders of Chesapeake:

The 2013 annual meeting of shareholders of Chesapeake will be held at Chesapeake's corporate headquarters on Friday, June 14, 2013 at 10:00 a.m., local time, for the following purposes:

1.

To elect directors;

2.

To vote on a proposal to declassify our Board;

3.

To vote on a proposal to implement proxy access;

4.

To vote on a proposal to eliminate supermajority voting requirements;

5.

To vote on a proposal to amend our 2003 Stock Award Plan for Non-Employee Directors;

6.

To approve our named executive officer compensation;

7.

To vote on a proposal to amend our Long Term Incentive Plan;

8.

To vote on a proposal to adopt our Annual Incentive Plan;

9.

To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm;

10.

To consider three shareholder proposals, if properly presented at the meeting; and

11.

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

In order to vote on the matters brought before the meeting, you may complete and mail the proxy card, vote by telephone or vote on the Internet, as explained on the proxy card. Holders of record of the Company's common stock at the close of business on April 15, 2013 are entitled to notice of, and to vote at, the meeting.

If you plan to attend the meeting, you must request an admission ticket in advance. For details, please refer to page 3 of the proxy statement.

By Order of the Board of Directors

**Jennifer M. Grigsby**

*Senior Vice President, Treasurer and Corporate Secretary*

**May 3, 2013**

Oklahoma City, Oklahoma

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on June 14, 2013:

This proxy statement and the Company's annual report for 2012 are available at [www.chk.com/proxy](http://www.chk.com/proxy).

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Proxy Statement

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## WELCOME TO THE CHESAPEAKE ANNUAL MEETING

### Meeting Information

Our Board of Directors is soliciting your proxy to vote your shares at our 2013 annual meeting of shareholders. In connection with this solicitation, we are providing you with a Notice of Internet Availability of Proxy Materials and access to these proxy materials, which include this 2013 proxy statement, the proxy card for our 2013 annual meeting and our 2012 annual report. Unless the context otherwise requires, the terms “we,” “our,” “us,” the “Company” or “Chesapeake” as used in this proxy statement refer to Chesapeake Energy Corporation. Our annual meeting will be held on June 14, 2013 at 10:00 a.m. at Chesapeake’s corporate headquarters located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118.

Shareholders of record on April 15, 2013, the record date, are entitled to notice of, and to vote at the meeting and any adjournment or postponement thereof. On the record date, there were 669,415,840 shares of our common stock outstanding and 653,677,421 shares entitled to vote at the meeting. A majority of the shares of common stock entitled to vote must be represented at the annual meeting, in person or by proxy, to constitute a quorum and to transact business. Each outstanding share of common stock is entitled to one vote, except unvested shares of our restricted stock issued prior to January 1, 2013 to our directors, employees and consultants, which do not have voting rights.

### Notice of Internet Availability of Proxy Materials

In accordance with rules and regulations adopted by the U.S. Securities and Exchange Commission, or SEC, instead of mailing a printed copy of our proxy materials, including our annual report, to each shareholder of record, we now generally furnish proxy materials to our shareholders on the Internet at [www.chk.com/proxy](http://www.chk.com/proxy). Unless you have previously signed up to receive your materials in paper, you will receive a document entitled *Notice of Internet Availability of Proxy Materials*, which we also refer to as the Notice, and will not receive a printed copy of the proxy materials unless you specifically request them. Instead, the Notice will provide instructions for using the Internet to access and review all of the information contained in the proxy materials. The Notice also provides you instructions for submitting your proxy via the Internet. Instructions for requesting printed proxy materials are included in the Notice. Notices are distributed by mail, unless you previously signed up to receive your proxy materials electronically, in which case they will be emailed to you. Below is a summary of the various delivery methods:

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*Shareholders who previously signed up to receive proxy materials electronically.* If you previously signed up to receive proxy materials electronically, we will send the Notice to you via e-mail, to the last e-mail address you have supplied to us. We will e-mail electronic Notices on or about May 3, 2013.

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*Shareholders who previously signed up to receive printed proxy materials by mail.* If you previously submitted a valid election to receive all proxy materials in printed format, we will send you a full set of printed proxy materials, including our annual report. We will begin mailing these materials on or about May 6, 2013.

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*All other shareholders.* If you have not submitted any elections, we will send you a printed Notice by mail. We will begin mailing Notices on or about May 3, 2013.

If you are interested in receiving all future shareholder communications electronically, including proxy statements and annual reports, please visit [www.icsdelivery.com/chk](http://www.icsdelivery.com/chk) and register for electronic distribution. You will continue to receive all shareholder communications electronically until you change this election at [www.icsdelivery.com/chk](http://www.icsdelivery.com/chk). Electronic distribution saves us 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.

#### Voting Methods

You may vote your shares through one of the following methods:

- 

*In person at the annual meeting.* All shareholders of record may vote in person at the meeting. Beneficial owners may vote in person at the meeting if they have a legal proxy from their bank, broker or other intermediary.

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*By telephone or Internet.* All shareholders of record may vote by telephone from the U.S., Puerto Rico and Canada, using the toll-free telephone number on the proxy card, or through the Internet, using the procedures and instructions described on the proxy card. Beneficial owners may vote by telephone or Internet if their bank, broker or other intermediary makes those methods available, in which case they will include the instructions with the proxy materials. Shareholders may also vote through the Internet via [www.proxyvote.com](http://www.proxyvote.com).

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*By written proxy.* All shareholders of record can vote by written proxy card. If you received a printed copy of these proxy materials by mail, you may vote by signing, dating and mailing the enclosed proxy card, or if you are a beneficial owner, you may request a written proxy card or a vote instruction form from your bank, broker or other intermediary.

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If you are a Chesapeake employee and you participate in the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan, or the 401(k) Plan, you may receive a proxy via email so that you may instruct the trustee of the 401(k) Plan how to vote your 401(k) Plan shares. If you also hold shares directly, you may receive one proxy for both your directly held and 401(k) Plan shares which will allow you to vote those shares as one block. Please note, however, that since you only vote one time for all shares you own directly and in the 401(k) Plan, your vote on each voting item will be identical across all of those shares. To allow sufficient time for the trustee to vote the 401(k) Plan shares, your voting instructions must be received by 10:59 p.m. (CDT) on June 12, 2013. If you do not vote your proxy, the trustee will vote the 401(k) Plan shares credited to your 401(k) Plan account in the same proportion as the 401(k) Plan shares of other participants for which the trustee has received proper voting instructions.

Voting Instructions