

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A  
(AMENDMENT NO. 2)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 1997

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES ACT OF 1934

Commission File Number 1-13726

CHESAPEAKE ENERGY CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

OKLAHOMA  
(State or other jurisdiction of  
incorporation or organization)  
6100 NORTH WESTERN AVENUE  
OKLAHOMA CITY, OKLAHOMA  
(Address of principal executive offices)

73-1395733  
(I.R.S. Employer  
Identification No.)  
73118  
(Zip Code)

(405) 848-8000  
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, par value \$.01	New York Stock Exchange
9.125% Senior Notes due 2006	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. .

The aggregate market value of Common Stock held by non-affiliates on October 27, 1997 was \$423,923,486. At such date, there were 70,429,017 shares of Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE  
None

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

## INFORMATION REGARDING DIRECTORS

Pursuant to provisions of the Company's Certificate of Incorporation and Bylaws, the Board of Directors has fixed the number of directors at seven. The Company's 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 Board of Directors has nominated Breene M. Kerr and Walter C. Wilson for re-election as directors at the Company's annual meeting of shareholders scheduled to be held on December 12, 1997. The following information is furnished for each person who is a director of the Company.

## NOMINEES FOR RE-ELECTION AS DIRECTORS FOR TERMS EXPIRING IN 2000

Breene M. Kerr, age 68, has been a director of the Company since 1993. In 1969, he founded Kerr Consolidated, Inc. and remains Chairman and President of this private company with investments in the oil and gas and trucking industries. Additionally, in 1969, Mr. Kerr co-founded the Resource Analysis and Management Group and remained its 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. Mr. Kerr currently is a trustee and serves on the Investment Committee of the Brookings Institute in Washington, D.C., 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 in 1951 from the Massachusetts Institute of Technology.

Walter C. Wilson, age 62, has been a director of the Company since 1993. From 1963 to 1974 and from 1978 to 1997, Mr. Wilson was a general agent with Massachusetts Mutual Life Insurance Company. From 1974 to 1978, he was Senior Vice President of Massachusetts Mutual Life Insurance Company, and from 1958 to 1963, he was an agent with that company. Mr. Wilson is a member of the Board of Trustees of Springfield College in Springfield, Massachusetts, and is a director of Earth Satellite Corporation of Rockville, Maryland and Amerac Energy Corporation of Houston, Texas. Mr. Wilson graduated in 1958 from Dartmouth College.

## DIRECTORS WHOSE TERMS EXPIRE IN 1998

Tom L. Ward, age 38, has served as President, Chief Operating Officer, and a director of the Company since its inception in 1989. From 1982 to 1989, Mr. Ward was an independent producer of oil and gas in affiliation with Aubrey K. McClendon, the Company's Chairman and Chief Executive Officer. Mr. Ward is a member of the Board of Trustees of Anderson University in Anderson, Indiana. Mr. Ward graduated from the University of Oklahoma in 1981.

E. F. Heizer, Jr., age 68, has been a director of the Company since 1993. From 1985 to the present, Mr. Heizer has been a private venture capitalist. He founded Heizer Corp., an American Stock Exchange-listed business development company, in 1969 and served as Chairman and Chief Executive Officer from 1969 until 1986, when Heizer Corporation was reorganized into a number of public and private companies. Mr. Heizer was assistant treasurer of the Allstate Insurance Company from 1962 to 1969. He was employed by Booz, Allen and Hamilton from 1958 to 1962, Kidder, Peabody & Co. from 1956 to 1958, and Arthur Andersen & Co. from 1954 to 1956. He serves on the advisory board of the Kellogg School of Management at Northwestern University and the Executive Committee of Yale Law School. Mr. Heizer is a director of Amdahl Corporation in Santa Clara, California, Material Science Corporation, Elk Grove, Illinois, and numerous private companies. Mr. Heizer graduated in 1951 from Northwestern University and from Yale University Law School in 1954.

Frederick B. Whittemore, age 66, has been a director of the Company since 1993. Mr. Whittemore has been an advisory director of Morgan Stanley & Co. since 1989 and was a managing director of Morgan Stanley & Co. from 1970 to 1989. He was Vice-Chairman of the American Stock Exchange from 1982 to 1984. Mr. Whittemore was a partner with Morgan Stanley & Co. from 1967 to 1970 and an associate from 1958 to 1967. Mr. Whittemore is a director of Integon Insurance Company in Winston-Salem, North Carolina, Partner Reinsurance Company, Limited in Bermuda and Southern Pacific Petroleum, N.L. of Sydney, Australia. Mr. Whittemore graduated in 1953 from Dartmouth College and from the Amos Tuck School of Business Administration in 1954.

#### DIRECTORS WHOSE TERMS EXPIRE IN 1999

Aubrey K. McClendon, age 38, has served as Chairman of the Board, Chief Executive Officer and director of the Company since its inception in 1989. From 1982 to 1989, Mr. McClendon was an independent producer of oil and gas in affiliation with Tom L. Ward, the Company's President and Chief Operating Officer. Mr. McClendon is a member of the Board of Visitors of the Fuqua School of Business at Duke University, an Executive Committee member of the Texas Independent Producers and Royalty Owners Association, a director of the Oklahoma Independent Petroleum Association, and a director of the Louisiana Independent Oil and Gas Association. Mr. McClendon is a 1981 graduate of Duke University.

Shannon T. Self, age 41, has been a director of the Company since 1993. He is a shareholder of Self, Giddens & Lees, Inc., Attorneys at Law, in Oklahoma City, which he co-founded in 1991. Mr. Self was an associate and shareholder in the law firm of Hastie and Kirschner, Oklahoma City, from 1984 to 1991 and was employed by Arthur Young & Co. from 1979 to 1980. Mr. Self is a certified public accountant. He graduated from the University of Oklahoma in 1979 and from Northwestern University Law School in 1984.

#### INFORMATION REGARDING OFFICERS

##### Executive Officers

In addition to Messrs. McClendon and Ward, the following are also executive officers of the Company.

Marcus C. Rowland, age 45, was appointed Senior Vice President - Finance and Chief Financial Officer in September 1997. He served as Vice President - Finance and Chief Financial Officer from 1993 to 1997. From 1990 until his association with the Company, Mr. Rowland was Chief Operating Officer of Anglo-Suisse, L.P. assigned to the White Nights Russian Enterprise, a joint venture of Anglo-Suisse, L.P. and Phibro Energy Corporation, a major foreign operation which was granted the right to engage in oil and gas operations in Russia. Prior to his association with White Nights Russian Enterprise, Mr. Rowland owned and managed his own oil and gas company and prior to that was Chief Financial Officer of a private exploration company in Oklahoma City from 1981 to 1985. Mr. Rowland is a certified public accountant and graduated from Wichita State University in 1975.

Steven C. Dixon, age 39, has been Senior Vice President - Operations since 1995 and served as Vice President - Exploration from 1991 to 1995. Mr. Dixon was a self-employed geological consultant in Wichita, Kansas from 1983 through 1990. He was employed by Beren Corporation in Wichita, Kansas from 1980 to 1983 as a geologist. Mr. Dixon graduated from the University of Kansas in 1980.

J. Mark Lester, age 44, has been Senior Vice President - Exploration since 1995 and served as Vice President - Exploration from 1989 to 1995. From 1986 to 1989, Mr. Lester was employed by Messrs. McClendon and Ward. He was employed by various independent oil companies in Oklahoma City from 1980 to 1986, and was employed by Union Oil Company of California from 1977 to 1980 as a geophysicist. Mr. Lester graduated from Purdue University in 1975 and in 1977.

Henry J. Hood, age 37, was appointed Senior Vice President - Land and Legal in September 1997 and served as Vice President - Land and Legal from 1995. Mr. Hood was retained as a consultant to the Company during the two years prior to his joining the Company. He was associated with the law firm of Watson & McKenzie from 1987 to 1992. From 1991 to 1992, Mr. Hood was of counsel with the Oklahoma City law firm

of White, Coffey, Galt & Fite. Mr. Hood is a member of the Oklahoma and Texas Bar Associations. Mr. Hood graduated from Duke University in 1982 and from the University of Oklahoma College of Law in 1985.

Ronald A. Lefaive, age 50, has served as Controller and Chief Accounting Officer since 1993. From 1991 until his association with the Company, Mr. Lefaive was Controller for Phibro Energy Production, Inc., an international exploration and production subsidiary of Phibro Energy, whose principal operations were located in Russia. From 1982 to 1991, Mr. Lefaive served as Assistant Controller, General Auditor and Manager of Management Information Systems at Conquest Exploration Company in Houston, Texas. Prior to joining Conquest, Mr. Lefaive held various financial staff and management positions with The Superior Oil Company from 1980 to 1982 and Shell Oil Company from 1975 to 1982. Mr. Lefaive is a certified public accountant and graduated from the University of Houston in 1975.

Martha A. Burger, age 44, has served as Treasurer since 1995 and as Treasurer and Human Resources Manager since 1996. From 1994 to 1995, she served in various accounting positions with the Company including Assistant Controller-Operations. From 1989 to 1993, Ms. Burger was employed by Hadson Corporation as Assistant Treasurer and from 1994 to 1995, served as Vice President and Controller of Hadson. Prior to joining Hadson, Ms. Burger was employed by Phoenix Resource Companies, Inc. as Assistant Treasurer and by Arthur Andersen & Co. Ms. Burger is a certified public accountant and graduated from the University of Central Oklahoma in 1982 and from Oklahoma City University in 1992.

#### Other Officers

Thomas S. Price, Jr., age 45, has served as Vice President - Corporate Development since 1992 and was a consultant to the Company during the prior two years. He was employed by Kerr-McGee Corporation, Oklahoma City, from 1988 to 1990 and by Flag-Redfern Oil Company in Oklahoma City from 1984 to 1988. Mr. Price graduated from the University of Central Oklahoma in 1983, from the University of Oklahoma in 1989, and from the American Graduate School of International Management in 1992.

Dale W. Bossert, age 53, has served as Vice President - Production since January 1997. Mr. Bossert was previously employed by Celsius Energy Company as Consulting General Manager - Canada in 1996 and by Union Pacific Resources Company of Fort Worth, Texas from 1978 serving in various capacities, including Vice President - Production from 1989 to 1993 and as Vice President - Exploration and Production Services from 1993 to 1995. Mr. Bossert graduated from the University of Alberta in 1966.

Charles W. Imes, age 50, has served as Vice President - Information Technology since 1997 and served as Director -Management Information Systems since 1993. From 1983 to 1993, Mr. Imes owned Imes Software Systems in Oklahoma City and served as a consultant and supplier of software to the Company from 1990 to 1993. Mr. Imes graduated from the University of Oklahoma in 1969.

Terry L. Kite, age 43, has served as Vice President - Information Technology since February 1997. From 1981 to 1996, Mr. Kite served in various positions in information technology at Amerada Hess Corporation in Houston, Texas, including Manager - Geoscience and Engineering Systems. Prior to joining Amerada Hess, Mr. Kite held information systems staff positions with Earth Science Programming in Tulsa from 1979 to 1980 and with Seismograph Service Corporation in Tulsa from 1976 to 1979. Mr. Kite graduated from the Colorado School of Mines in 1976.

Janice A. Dobbs, age 49, has served as Corporate Secretary and Compliance Manager since 1993. From 1975 until her association with the Company, Ms. Dobbs was the corporate/securities legal assistant with the law firm of Andrews Davis Legg Bixler Milsten & Price, Inc. in Oklahoma City. From 1973 to 1975, Ms. Dobbs was the Administrative Assistant to the President and General Counsel of Texas International Company, an oil and gas exploration and production company in Oklahoma City. Ms. Dobbs is a certified legal assistant, an associate member of the American Bar Association, a member of the American Society of Corporate Secretaries and the Society of Human Resources Management.

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires the Company's directors and executive officers and persons who beneficially own more than 10% of the Company's Common Stock to file reports of ownership and subsequent changes with the Securities and Exchange Commission.

Executive officers of the Company, Marcus C. Rowland, Steven C. Dixon, J. Mark Lester, Henry J. Hood, Ronald A. Lefaive and Martha A. Burger were late in filing Form 4's to report the cancellation of stock options and also failed to timely report on Form 5 options granted to replace such options.

Shannon T. Self, a director of the Company, has advised the Company that the acquisition of 52,000 shares of Common Stock acquired through the exercise of a stock option granted by the Company and the disposition of 50,000 of those shares were reported on a late filed Form 4.

## ITEM 11. EXECUTIVE COMPENSATION

## SUMMARY COMPENSATION TABLE

The following table sets forth for the last three fiscal years the cash compensation of (i) the Company's chief executive officer and (ii) the five other most highly compensated executive officers:

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION			SECURITIES UNDERLYING OPTION AWARDS(B) (# OF SHARES)	ALL OTHER COMPENSATION(C)
		SALARY	BONUS	OTHER ANNUAL COMPENSATION(A)		
Aubrey K. McClendon.....	1997	\$250,000	\$120,000	\$74,450	463,000	\$11,050
Chairman of the Board and	1996	\$185,000	\$ 40,000	\$65,408	288,000	\$ 8,295
Chief Executive Officer	1995	\$180,000	\$ 65,400	\$57,640	540,000	\$ 4,620
Tom L. Ward.....	1997	\$250,000	\$120,000	\$75,408	463,000	\$13,700
President and	1996	\$185,000	\$ 40,000	\$66,850	288,000	\$ 8,368
Chief Operating Officer	1995	\$180,000	\$ 65,400	\$57,340	540,000	\$ 4,620
Marcus C. Rowland.....	1997	\$185,000	\$ 50,000	(d)	36,000	\$ 9,500
Senior Vice President -- Finance	1996	\$165,000	\$ 20,000	(d)	171,000	\$11,333
and Chief Financial Officer	1995	\$155,000	\$ 45,400	(d)	324,000	\$ 4,620
Steven C. Dixon.....	1997	\$145,000	\$ 45,000	(d)	30,000	\$11,500
Senior Vice President --	1996	\$125,000	\$ 12,500	(d)	97,500	\$ 9,870
Operations	1995	\$112,500	\$ 27,900	(d)	184,500	\$ 3,510
Henry J. Hood.....	1997	\$135,000	\$ 30,000	(d)	19,500	\$ 2,920
Senior Vice President --	1996	\$120,000	\$ 12,000	(d)	51,000	\$ 6,400
Land and Legal	1995	\$120,000	\$ 6,300	(d)	20,250	--
J. Mark Lester.....	1997	\$132,500	\$ 30,000	(d)	19,500	\$10,400
Senior Vice President --	1996	\$110,000	\$ 11,000	(d)	64,500	\$ 7,635
Exploration	1995	\$105,000	\$ 14,800	(d)	81,000	\$ 2,063

(a) Represents the cost of personal benefits provided by the Company, including for fiscal 1997 personal accounting support (\$53,000 for Mr. McClendon and \$53,350 for Mr. Ward), personal vehicle (\$18,000 each) and country club membership dues (\$3,450 for Mr. McClendon and \$4,058 for Mr. Ward).

(b) No awards of restricted stock or payments under long-term incentive plans were made by the Company to any of the named executives in any period covered by the table.

(c) Represents Company matching contributions to the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan.

(d) Other annual compensation did not exceed the lesser of \$50,000 or 10% of the executive officer's salary and bonus during the year.

## STOCK OPTIONS GRANTED IN FISCAL 1997

The following table sets forth information concerning options to purchase Common Stock granted in fiscal 1997 to the executive officers named in the Summary Compensation Table. Amounts represent stock options granted under the Company's 1994 and 1996 Plans and include both incentive and non-qualified stock options. One-fourth of each option becomes exercisable on each of the first four grant date anniversaries. The exercise price of each option represents the market price of the Common Stock on the date of grant (110% of such market price with respect to incentive stock options granted to Messrs. McClendon and Ward).

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(A)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 1997	EXERCISE PRICE PER SHARE	EXPIRATION DATE	-----	
					5%	10%
Aubrey K. McClendon.....	15,456(b)	0.4%	\$28.47	6/13/97	N/A	N/A
	184,544(b)	5.3%	\$25.87	6/13/97	N/A	N/A
	235,176	6.7%	\$14.75	6/13/07	\$958,378	\$2,117,765
	27,824	0.8%	\$16.23	6/13/02	\$ 83,824	\$ 220,993
Tom L. Ward.....	15,456(b)	0.4%	\$28.47	6/13/97	N/A	N/A
	184,544(b)	5.3%	\$25.87	6/13/97	N/A	N/A
	235,176	6.7%	\$14.75	6/13/07	\$958,378	\$2,117,765
	27,824	0.8%	\$16.23	6/13/02	\$ 83,824	\$ 220,993
Marcus C. Rowland.....	36,000	1.0%	\$14.25	4/25/07	\$322,623	\$ 817,590
Steven C. Dixon.....	30,000	0.9%	\$14.25	4/25/07	\$268,852	\$ 681,325
Henry J. Hood.....	19,500	0.6%	\$14.25	4/25/07	\$174,754	\$ 442,861
J. Mark Lester.....	19,500	0.6%	\$14.25	4/25/07	\$174,754	\$ 442,861

(a) The assumed annual rates of stock price appreciation of 5% and 10% are set by the Securities and Exchange Commission and are not intended as a forecast of possible future appreciation in stock prices.

(b) Option was canceled upon grant of replacement option.

## AGGREGATED OPTION EXERCISES IN FISCAL 1997 AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information about options exercised by the named executive officers during the fiscal year ended June 30, 1997 and the unexercised options to purchase Common Stock held by them at June 30, 1997.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED (B)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 6/30/97		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 6/30/97(A)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Aubrey K. McClendon.....	315,000(c)	\$4,499,496	402,750	701,750	\$2,614,777	\$2,437,118
Tom L. Ward.....	--	--	717,750	701,750	\$5,520,373	\$2,437,118
Marcus C. Rowland.....	249,750	\$4,409,183	--	399,250	--	\$1,462,271
Steven C. Dixon.....	--	--	358,273	253,627	\$3,006,497	\$ 838,860
Henry J. Hood.....	7,876	\$ 162,847	10,687	83,251	\$ 47,775	\$ 163,812
J. Mark Lester.....	28,128	\$ 678,811	96,386	120,514	\$ 793,653	\$ 391,377

(a) At June 30, 1997, the closing price of the Common Stock on the New York Stock Exchange ("NYSE") was \$9.94. "In-the-money options" are stock options with respect to which the market value of the underlying shares of Common Stock exceeded the exercise price at June 30, 1997. The values shown were determined by subtracting the aggregate exercise price of such options from the aggregate market value of the underlying shares of Common Stock on June 30, 1997.

(b) Represents amounts determined by subtracting the aggregate exercise price of such options from the aggregate market value of the underlying shares of Common Stock on the exercise date.

(c) Mr. McClendon has not sold any of such shares.

## EMPLOYMENT AGREEMENTS

The Company has employment agreements with Messrs. McClendon and Ward, each of which provides, among other things, for an annual base salary of not less than \$300,000 commencing July 1, 1997; bonuses at the discretion of the Board of Directors; eligibility for stock options; and benefits, including an automobile and aircraft allowance, club membership and personal accounting support. Each agreement has a term of three years commencing July 1, 1997, which term is automatically extended for one additional year on each June 30 unless the Company provides 30 days prior notice of non-extension.

The employment agreements between the Company and Messrs. McClendon and Ward permit them to participate in each well drilled by the Company on terms no less favorable to the Company than those agreed to by unaffiliated industry partners. Messrs. McClendon and Ward have participated in all wells drilled by the Company since its initial public offering in February 1993 and intend to continue participating in wells drilled by the Company under the terms of their employment agreements. Thirty days prior to the beginning of each calendar quarter, Messrs. McClendon and Ward and the disinterested members of the Compensation Committee of the Board of Directors agree upon the working interest percentage in all wells spudded during that quarter to be purchased by Messrs. McClendon and Ward. That percentage may not be adjusted during such quarter except with the approval of such disinterested directors. No such adjustments have ever been requested or granted. The participation election by Messrs. McClendon or Ward may not exceed a 2.5% working interest in a well. Messrs. McClendon and Ward are obligated to pay within 150 days after billing all costs and expenses associated with the working interests they acquire under this arrangement. In addition, for each calendar year during which the employment agreements are in effect, Messrs. McClendon and Ward each agree to hold shares of the Company's Common Stock having an aggregate investment value equal to 500% of his annual base salary and bonus.

The Company has a similar employment agreement with Mr. Rowland. It provides for an annual base salary of not less than \$225,000 commencing July 1, 1997. The agreement has a term of three years beginning July 1, 1997, which term is automatically extended for one additional year on each June 30 unless the Company provides 30 days prior notice of non-extension. Mr. Rowland is permitted to participate in wells drilled by the Company in the same manner as Messrs. McClendon and Ward, except that Mr. Rowland's

working interest participation in a well may not exceed 1%. Messrs. McClendon, Ward and Rowland may not participate in any well in which their combined working interests cause the Company's working interest to be reduced to less than 12.5%. Mr. Rowland agrees to hold shares of the Company's Common Stock having an aggregate investment value equal to 100% of his annual base salary and bonus during each calendar year for the term of the agreement.

Messrs. McClendon, Ward and Rowland have agreed that they will not engage in oil and gas operations individually except pursuant to the aforementioned participation in Company wells and as a result of subsequent operations on properties owned by them or their affiliates as of July 1, 1995 or acquired from the Company with respect to Messrs. McClendon and Ward and as of March 1, 1993 with respect to Mr. Rowland.

The Company also has employment agreements with Messrs. Dixon, Lester and Hood. These agreements have a term of three years from July 1, 1997, with annual base salaries of \$175,000 for Mr. Dixon, \$160,000 for Mr. Lester and \$155,000 for Mr. Hood for the term of their agreements. The agreements require each of them to acquire and continue to hold shares of the Company's Common Stock having an annual aggregate investment value equal to 15% for Messrs. Dixon and Lester and 10% for Mr. Hood of the annual base salary and bonus compensation paid to them under their respective agreements.

The Company may terminate any of the employment agreements with its executive officers at any time without cause; however, upon such termination Messrs. McClendon, Ward and Rowland are entitled to continue to receive salary and benefits for the balance of the contract term. Messrs. Dixon, Hood and Lester are entitled to 90 days compensation and benefits. Each of the employment agreements for Messrs. McClendon, Ward and Rowland further states that if, during the term of the agreement, there is a change of control and within one year (i) the agreement expires and is not extended; (ii) the executive officer is terminated other than for cause, death or incapacity; or (iii) the executive resigns as a result of a reassignment of duties inconsistent with his position or a reduction in his compensation, then the executive officer will be entitled to a severance payment in an amount equal to 36 months of base salary compensation. Change of control is defined in these agreements to include (x) an event which results in a person acquiring beneficial ownership of securities having 35% or more of the voting power of the Company's outstanding voting securities, or (y) within two years of a tender offer or exchange offer for the voting stock of the Company or as a result of a merger, consolidation, sale of assets or contested election, a majority of the members of the Company's Board of Directors is replaced by directors who were not nominated and approved by the Board of Directors.

#### DIRECTORS' COMPENSATION

During fiscal year 1997, each director who was not an officer of the Company received \$2,500 for each regular meeting of the Board attended, up to a maximum of \$10,000 during the year. Beginning in fiscal 1998, directors who are not officers of the Company will receive an annual retainer of \$10,000, payable quarterly, and \$1,250 for each meeting of the Board attended. Directors are reimbursed for travel and other expenses. Officers who also serve as directors do not receive fees for serving as directors.

During fiscal year 1997, each director who was not an officer of the Company was granted an option for 20,000 shares (10,000 shares pre-split) at an exercise price of \$30.63 (\$61.25 pre-split) per share under the Company's 1992 Nonstatutory Stock Option Plan (the "1992 NSO Plan"). During fiscal year 1998, each director who is not an officer will receive ten-year non-qualified options under the 1992 NSO Plan to purchase 15,000 shares of Common Stock, options for 3,750 shares granted on the first day of each quarter, at an exercise price equal to the market price on the date of grant.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 1997, the Compensation Committee was composed of Aubrey K. McClendon, Tom L. Ward, E.F. Heizer, Jr. and Frederick B. Whittemore. Mr. McClendon is Chairman of the Board and Chief Executive Officer of the Company. Mr. Ward is the Company's President and Chief Operating Officer.



Messrs. McClendon and Ward administer the Company's 1992 stock options plans. The grant of new options under the 1992 Incentive Stock Option Plan (the "1992 ISO Plan") was terminated in December 1994. The only options issued under the 1992 NSO Plan during fiscal 1997 were those to the Company's non-employee directors pursuant to an annual formula award provision. Messrs. McClendon and Ward also administer the 1994 and 1996 Plans with respect to non-director employee participants. Messrs. Heizer and Whittemore, administer the 1994 and 1996 Plans with respect to executive officers or employee participants who are directors.

Messrs. McClendon and Ward participate as working interest owners in the Company's oil and gas wells pursuant to the terms of their employment agreements with the Company. See "Employment Agreements." Accounts receivable from Messrs. McClendon and Ward are generated by joint interest billings relating to such participation and as a result of miscellaneous expenses paid on their behalf by the Company. The Company has extended certain registration rights to Messrs. McClendon and Ward. Mr. Self is a partner in the firm of Self, Giddens & Lees, Inc., counsel to the Company. See "Certain Transactions."

#### ITEM 12. SECURITY OWNERSHIP

The table below sets forth as of the Record Date (i) the name and address of each person known by management to own beneficially 5% or more of the Company's outstanding Common Stock, the number of shares beneficially owned by each such shareholder and the percentage of outstanding shares owned and (ii) the number and percentage of outstanding shares of Common Stock beneficially owned by each of the Company's nominees, directors and executive officers listed in the Summary Compensation Table below and by all directors and executive officers of the Company as a group. Unless otherwise noted, the persons named below have sole voting and investment power with respect to such shares.

BENEFICIAL OWNER	COMMON STOCK	
	NUMBER OF SHARES	PERCENT OF CLASS
Tom L. Ward*+..... 6100 North Western Avenue Oklahoma City, OK 73118	11,263,072(a)(b)	16%
Aubrey K. McClendon*+..... 6100 North Western Avenue Oklahoma City, OK 73118	11,005,978(b)(c)	15%
Pilgrim Baxter & Associates..... 1255 Drummers Lane Wayne, PA 19087-1590	5,303,008(d)	8%
Shannon T. Self*.....	2,731,998(e)	4%
E. F. Heizer, Jr.*.....	1,054,400(f)	1%
Frederick B. Whittemore*.....	919,000(g)	1%
Steven C. Dixon+.....	407,584(b)(h)	**
Breene M. Kerr*.....	346,250(i)	**
Walter C. Wilson*.....	248,000(j)	**
Marcus C. Rowland+.....	165,215(b)(k)	**
J. Mark Lester+.....	106,105(b)(l)	**
Henry J. Hood+.....	23,162(b)(m)	**
All directors and executive officers as a group.....	30,948,588(n)	42%

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\* Director

+ Executive officer of the Company

\*\* Less than 1%

- (a) Includes 1,846,860 shares held by TLW Investments, Inc., an Oklahoma corporation of which Mr. Ward is sole shareholder and chief executive officer, and 841,500 shares which may be acquired pursuant to currently exercisable stock options granted by the Company.
- (b) Includes shares purchased on behalf of the executive officer in the Chesapeake Energy Corporation Savings and Incentive Stock Bonus Plan (Tom L. Ward, 3,522 shares; Aubrey K. McClendon, 1,643 shares; Steven C. Dixon, 937 shares; Marcus C. Rowland, 985 shares; J. Mark Lester, 719 shares and Henry J. Hood, 776 shares).
- (c) Includes 508,560 shares held by Chesapeake Investments, an Oklahoma limited partnership of which Mr. McClendon is sole general partner, and 526,500 shares which may be acquired pursuant to currently exercisable stock options granted by the Company.
- (d) Based on information provided by Pilgrim Baxter & Associates.
- (e) Includes 2,382 shares held by Pearson Street Limited Partnership, an Oklahoma limited partnership of which Mr. Self is a general partner and the remaining partners are members of Mr. Self's immediate family sharing the same household; 1,098,600 shares held by Mr. Self as trustee of the Aubrey K. McClendon Children's Trust, 1,209,100 shares held by Mr. Self as trustee of the Tom L. Ward Children's Trust and 421,916 shares which Mr. Self has the right to acquire pursuant to currently exercisable stock options granted by the Company.
- (f) Includes 344,750 shares subject to currently exercisable stock options granted to Mr. Heizer by the Company.
- (g) Includes 374,000 shares subject to currently exercisable stock options granted to Mr. Whittemore by the Company.
- (h) Includes 403,647 shares subject to currently exercisable stock options granted to Mr. Dixon by the Company.
- (i) Includes 27,500 shares subject to currently exercisable stock options granted to Mr. Kerr by the Company.
- (j) Includes 248,000 shares subject to currently exercisable stock options granted to Mr. Wilson by the Company.
- (k) Includes 74,250 shares subject to currently exercisable stock options granted to Mr. Rowland by the Company.
- (l) Includes 100,886 shares subject to currently exercisable stock options granted to Mr. Lester by the Company.
- (m) Includes 20,812 shares subject to currently exercisable stock options granted to Mr. Hood by the Company.
- (n) Includes shares subject to options which are currently exercisable.

#### ITEM 13. CERTAIN TRANSACTIONS

Legal Counsel. Shannon T. Self, a director of the Company, is a shareholder in the law firm of Self, Giddens & Lees, Inc., which provides legal services to the Company. During fiscal 1997, the firm billed the Company approximately \$207,000 for such legal services.

Oil and Gas Operations. Prior to 1989, Messrs. McClendon and Ward and their affiliates, as independent oil producers, acquired various leasehold and working interests. In 1989, Chesapeake Operating, Inc. ("COI"), a wholly-owned subsidiary of the Company, was formed to drill and operate wells in which Messrs. McClendon and Ward or their affiliates owned working interests. COI entered into joint operating agreements with Messrs. McClendon and Ward and other working interest owners and billed each for their respective shares of expenses and fees.

COI continues to operate wells in which directors, executive officers and related parties own working interests. In addition, directors, executive officers and related parties have acquired working interests directly and indirectly from the Company and participated in wells drilled by COI on terms no less favorable to the

Company than available to unrelated parties. Other than interests owned prior to the Company's initial public offering in 1993, the Company's directors who are not officers have not acquired from the Company interests in any new wells drilled by the Company since their election as directors and have no present intention to acquire interests in any new wells of the Company. The table below presents information about drilling, completion, equipping and operating costs billed to the person named from July 1, 1996 to June 30, 1997, the largest amount owed by them during the period and the balance owed at July 1, 1996 and June 30, 1997. No interest is charged on amounts owing for such costs, unless such costs are not paid in a timely manner. The amounts for all other directors, executive officers and related parties were insignificant.

	AUBREY K. MCCLENDON	TOM L. WARD	MARCUS C. ROWLAND
	-----	-----	-----
	(IN THOUSANDS)		
Balance at July 1, 1996.....	\$ 971	\$1,288	\$ 82
Amount billed (to June 30, 1997).....	\$3,662	\$3,534	\$171
Largest outstanding balance (month end).....	\$3,552	\$2,997	\$ 79
Balance at June 30, 1997.....	\$3,552	\$2,997	\$ 42

Miscellaneous. From time to time, the Company pays various expenses incurred on behalf of Messrs. McClendon and Ward and their affiliates, creating accounts receivable of the Company. During fiscal 1997 additions to accounts receivable (excluding joint interest billings, which are described above) from Messrs. McClendon and Ward and their affiliates were insignificant.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements. The Company's Consolidated Financial Statements are included in Item 8 of this report. Reference is made to the accompanying Index to Consolidated Financial Statements.

2. Financial Statement Schedules. No financial statement schedules are filed with this report as no schedules are applicable or required.

3. Exhibits. The following exhibits are filed herewith pursuant to the requirements of Item 601 of Regulation S-K:

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	-- Registrant's Certificate of Incorporation. Incorporated herein by reference to Exhibit 3.1 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1996.
3.2	-- Registrant's Bylaws. Incorporated herein by reference to Exhibit 3.2 to Registrant's registration statement on Form 8-B (No. 001-13726).
4.1	-- Indenture dated as of March 15, 1997 among the Registrant, as issuer, Chesapeake Operating, Inc., Chesapeake Gas Development Corporation and Chesapeake Exploration Limited Partnership, as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 7.875% Senior Notes due 2004. Incorporated herein by reference to Exhibit 4.1 to Registrant registration statement on Form S-4 (No. 333-24995).
4.2	-- Indenture dated as of March 15, 1997 among the Registrant, as issuer, Chesapeake Operating, Inc., Chesapeake Gas Development Corporation and Chesapeake Exploration Limited Partnership, as Subsidiary Guarantors, and United States Trust Company of New York, as Trustee, with respect to 8.5% Senior Notes due 2012. Incorporated herein by reference to Exhibit 4.1.3 to Registrant registration statement on Form S-4 (No. 333-24995).
4.3	-- Indenture dated as of May 15, 1995 among Chesapeake Energy Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as Trustee, with respect to 10.5% Senior Notes due 2002. Incorporated herein by reference to Exhibit 4.3 to Registrant's registration statement on Form S-4 (No. 33-93718).
4.4	-- Indenture dated April 1, 1996 among Chesapeake Energy Corporation, its subsidiaries signatory thereto as Subsidiary Guarantors and United States Trust Company of New York, as Trustee, with respect to 9.125% Senior Notes due 2006. Incorporated herein by reference to Exhibit 4.6 to Registrant's registration statement on Form S-3 Registration Statement (No. 333-1588)
4.5*	-- Agreement to furnish copies of unfiled long-term debt instruments.
4.8	-- Stock Registration Agreement dated May 21, 1992 between Chesapeake Energy Corporation and various lenders, as amended by First Amendment thereto dated May 26, 1992. Incorporated herein by reference to Exhibits 10.26.1 and 10.26.2 to Registrant's registration statement on Form S-1 (No. 33-55600).
10.1.1+	-- Registrant's 1992 Incentive Stock Option Plan. Incorporated herein by reference to Exhibit 10.1.1 to Registrant's registration statement on Form S-4 (No. 33-93718).

EXHIBIT NUMBER -----	DESCRIPTION -----
10.1.2+	-- Registrant's 1992 Nonstatutory Stock Option Plan, as amended. Incorporated herein by reference to Exhibit 10.1.2 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1996.
10.1.3+	-- Registrant's 1994 Stock Option Plan, as amended. Incorporated herein by reference to Exhibit 10.1.3 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1996.
10.1.4+	-- Registrant's 1996 Stock Option Plan. Incorporated herein by reference to Registrant's Proxy Statement for its 1996 Annual Meeting of Shareholders.
10.1.4.1*	-- Amendment to the Chesapeake Energy Corporation 1996 Stock Option Plan.
10.2.1+#	-- Employment Agreement dated as of July 1, 1997 between Aubrey K. McClendon and Chesapeake Energy Corporation.
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10.2.4+	-- Employment Agreement dated as of July 1, 1995 between Steven C. Dixon and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.4 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.
10.2.5+*	-- Employment Agreement dated as of July 1, 1997 between J. Mark Lester and Chesapeake Energy Corporation.
10.2.6+*	-- Employment Agreement dated as of July 1, 1997 between Henry J. Hood and Chesapeake Energy Corporation.
10.2.7+*	-- Employment Agreement dated as of July 1, 1997 between Ronald A. Lefaive and Chesapeake Energy Corporation.
10.2.8+*	-- Employment Agreement dated as of July 1, 1997 between Martha A. Burger and Chesapeake Energy Corporation.
10.3+	-- Form of Indemnity Agreement for officers and directors of Registrant and its subsidiaries. Incorporated herein by reference to Exhibit 10.30 to Registrant's registration statement on Form S-1 (No. 33-55600).
10.9	-- Indemnity and Stock Registration Agreement, as amended by First Amendment (Revised) thereto, dated as of February 12, 1993, and as amended by Second Amendment thereto dated as of October 20, 1995, among Chesapeake Energy Corporation, Chesapeake Operating, Inc., Chesapeake Investments, TLW Investments, Inc., et al. Incorporated herein by reference to Exhibit 10.35 to Registrant's annual report on Form 10-K for the year ended June 30, 1993 and Exhibit 10.4.1 to Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1995.
10.10	-- Partnership Agreement of Chesapeake Exploration Limited Partnership dated December 27, 1994 between Chesapeake Energy Corporation and Chesapeake Operating, Inc. Incorporated herein by reference to Exhibit 10.10 to Registrant's registration statement on Form S-4 (No. 33-93718).
10.11*	-- Amended and Restated Limited Partnership Agreement of Chesapeake Louisiana, L.P. dated June 30, 1997 between Chesapeake Operating, Inc. and Chesapeake Energy Louisiana Corporation.
11*	-- Statement of Net Income (Loss) Per Share.

EXHIBIT NUMBER -----	DESCRIPTION -----
21*	-- Subsidiaries of Registrant
23.1*	-- Consent of Coopers & Lybrand L.L.P.
23.2*	-- Consent of Price Waterhouse LLP
23.3*	-- Consent of Williamson Petroleum Consultants, Inc.
27*	-- Financial Data Schedule

- -----

\* Previously filed.

# Filed herewith.

+ Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

During the quarter ended June 30, 1997, the Company filed the following Current Reports on Form 8-K dated

April 2, 1997 announcing the completion of its Brown #1-H in Washington County, Texas,

April 24, 1997 reporting third quarter and first nine months fiscal 1997 results, and

June 27, 1997 announcing refocused Louisiana drilling program and expected asset writedown.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment on Form 10-K/A to be signed on its behalf by the undersigned thereunto duly authorized on October 31, 1997.

CHESAPEAKE ENERGY CORPORATION

By: /s/ MARCUS C. ROWLAND

-----  
Marcus C. Rowland  
Senior Vice President-Finance  
and Chief Financial Officer  
(Principal Financial Officer)

## INDEX TO EXHIBITS

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10.2.2+#	-- Employment Agreement dated as of July 1, 1997 between Tom L. Ward and Chesapeake Energy Corporation.
10.2.3+#	-- Employment Agreement dated as of July 1, 1997 between Marcus C. Rowland and Chesapeake Energy Corporation.
10.2.4+	-- Employment Agreement dated as of July 1, 1995 between Steven C. Dixon and Chesapeake Energy Corporation. Incorporated herein by reference to Exhibit 10.2.4 to Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1995.
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27*	-- Financial Data Schedule

- - - - -  
\* Previously filed.

# Filed herewith.

+ Management contract or compensatory plan or arrangement.

EMPLOYMENT AGREEMENT

between

AUBREY K. McCLENDON

and

CHESAPEAKE ENERGY CORPORATION

Effective July 1, 1997

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## EMPLOYMENT AGREEMENT

THIS AGREEMENT is made effective July 1, 1997, between CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), and AUBREY K. McCLENDON, an individual (the "Executive") and replaces and supersedes that certain Employment Agreement between Company and Executive dated July 1, 1995.

## W I T N E S S E T H:

WHEREAS, the Company desires to retain the services of the Executive and the Executive desires to make the Executive's services available to the Company.

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Company and the Executive agree as follows:

1. Employment. The Company hereby employs the Executive and the Executive hereby accepts such employment subject to the terms and conditions contained in this Agreement. The Executive is engaged as an employee of the Company, and the Executive and the Company do not intend to create a joint venture, partnership or other relationship which might impose a fiduciary obligation on the Executive or the Company in the performance of this Agreement.
2. Executive's Duties. The Executive is employed on a full-time basis. Throughout the term of this Agreement, the Executive will use the Executive's best efforts and due diligence to assist the Company in achieving the most profitable operation of the Company and the Company's affiliated entities consistent with developing and maintaining a quality business operation.
  - 2.1 Specific Duties. The Executive will serve as Chairman of the Board and Chief Executive Officer for the Company. From time to time, the Executive may be appointed as an officer of one (1) or more of the Company's subsidiaries. During the term of this Agreement, the Executive will be nominated for election or appointed to serve as a director of the Company and one (1) or more of the Company's subsidiaries. The Executive will perform all of the services required to fully and faithfully execute the office and position to which the Executive is appointed and such other services as may be reasonably directed by the board of directors of the Company.
  - 2.2 Modifications. The precise duties to be performed by the Executive may be extended or curtailed in the discretion of the respective boards of directors of the Company. However, except for termination for cause under paragraph 6.1.2 of this Agreement, the failure of the Executive to be elected, be reelected or serve as a director of the Company during the term of this Agreement, the

removal of the Executive as a member of the board of directors of the Company, the withdrawal of the designation of the Executive as Chairman of the Board or Chief Executive Officer of the Company, or the assignment of the performance of duties incumbent on the foregoing offices to other persons without the prior written consent of the Executive will constitute termination without cause by the Company.

- 2.3 Rules and Regulations. The Company currently has an Employment Policies Manual which addresses frequently asked questions regarding the Company. The Executive agrees to comply with the Employment Policies Manual except to the extent inconsistent with this Agreement. The Employment Policies Manual is subject to change without notice in the sole discretion of the Company at any time.
- 2.4 Stock Investment. For each calendar year during which this Agreement is in effect, the Executive agrees to hold shares of the Company's common stock having aggregate Investment Value equal to five hundred percent (500%) of the compensation paid to the Executive under paragraphs 4.1 and 4.2 of this Agreement during such calendar year. For purposes of this section, the "Investment Value" of each share of stock will be the higher of either (a) the price paid by the Executive for such share as part of an open market purchase; or (b) the fair market value on the date of exercise for shares acquired through the exercise of employee stock options. Any shares of common stock acquired by the Executive prior to the date of this Agreement and still owned by the Executive during the term of this Agreement may be used to satisfy this requirement to acquire common stock. The Investment Value for previously acquired stock shall be calculated using the average stock price during the first six months of this Agreement.

The stock acquired or owned pursuant to this paragraph 2.4 must be held by the Executive at all times during the Executive's employment by the Company or the Company's affiliated entities. In order to administer this provision, the Executive agrees to return to the Company's Chief Executive Officer a semi-annual report of purchases and ownership in a form prepared by the Company. This paragraph will become null and void if the Company's common stock ceases to be listed on the New York Stock Exchange or on the National Association of Securities Dealers Automated Quotation System. The Company has no obligation to sell or to purchase from the Executive any of the Company's stock in connection with this paragraph 2.4 and has made no representations or warranties regarding the Company's stock, operations or financial condition.

3. Other Activities. Except for the activities (the "Permitted Activities") expressly permitted by paragraphs 3.1 and 3.2 of this Agreement, or the prior written approval of the board of directors of the Company, the Executive will not: (a) engage in business independent of the

Executive's employment by the Company which requires any substantial portion of the Executive's time; (b) serve as an officer, general partner or member in any corporation, partnership, company, or firm; (c) directly or indirectly invest in, participate in or acquire an interest in any oil and gas business, including, without limitation, (i) producing oil and gas, (ii) drilling, owning or operating oil and gas leases or wells, (iii) providing services or materials to the oil and gas industry, (iv) marketing or refining oil or gas, or (v) owning any interest in any corporation, partnership, company or entity which conducts any of the foregoing activities. The limitation in this paragraph 3 will not prohibit an investment by the Executive in publicly traded securities. Notwithstanding the foregoing, the Executive will be permitted to participate in the following activities which will be deemed to be approved by the Company, if such activities are undertaken in strict compliance with this Agreement.

- 3.1 Company's Activities. The Executive or the Executive's designated affiliate will be permitted to acquire a working interest in all of the wells spudded by the Company or the Company's subsidiary corporations, partnerships or entities (the "Program Wells") during any Calendar Quarter (as hereafter defined) on the terms and conditions set forth herein. The Program Wells include any well spudded during such Calendar Quarter in which the Company or the Company's subsidiary corporations, partnerships or entities participate as a nonoperator.
- 3.1.1 Amount of Participation. On or before the date which is thirty (30) days before the first (st) day of each Calendar Quarter, the Executive will provide notice to the compensation committee of the Company's board of directors of the Executive's intent to participate in the Program Wells during the succeeding Calendar Quarter and the approximate percentage working interest which the Executive proposes to participate with during such Calendar Quarter. The Executive's percentage working interest in the Program Wells spudded during such Calendar Quarter will be subject to approval by the disinterested members of the compensation committee of the Company's board of directors and to the limitations set forth herein (the "Approved Percentage"). The Executive's Approved Percentage working Interest participation (determined without consideration of any carried interest) in the Program Wells for any Calendar Quarter will not exceed two and one-half percent (2.5%) on an eight-eighths (8/8ths) basis. On designation of the Approved Percentage for a Calendar Quarter, the Executive will be deemed to have elected to participate in each Program Well spudded during such calendar Quarter with a working interest equal to the following applicable percentage determined on a well-by-well basis (the "Minimum Participation"):
- (a) the Approved Percentage for a Program Well which does not fall within clause (b) of this paragraph 3.1.1 or an Operations Well; or (b) zero percent (0%) if the combined participation in the Program Well by the Executive, Mr. Tom L. Ward and Mr. Marcus C. Rowland with such individuals'

Approved Percentage under their respective employment agreements causes the Company's working interest (determined without consideration of any carried interest) on the spud date for such Program Well to be less than twelve and one-half percent (12.5%) on an eight-eighths (8/8ths) basis. If clause (b) of this paragraph 3.1.1 prohibits the Executive's participation in a Program Well, then Messrs. Ward and Rowland will not be entitled to participate in such Program Well under their employment agreements. An "Operations Well" means a Program Well which falls within the provisions of clause (b) of this paragraph 3.1.1, but for which the Executive's participation is deemed necessary for the Company to retain operations as determined by the disinterested members of the compensation committee of the Company's board of directors. If the Executive fails to provide notice of the Executive's intent to participate and the Executive's proposed participation prior to the specified date as provided herein, the amount of the Approved Percentage for the Calendar Quarter will be deemed to be zero (0).

3.1.2 Conditions of Participation. The Participation by the Executive in each Program Well will be on no better terms than the terms agreed to by unaffiliated third party participants in connection with the acquisition of an interest in such Program Well from the Company or its subsidiary corporations, partnerships or entities. The Approved Percentage cannot be changed during any Calendar Quarter without the prior approval of the disinterested members of the compensation committee of the Company's board of directors. Any participation by the Executive under this paragraph 3.1 is also conditioned upon the Executive's participation in each Program Well spudded during such Calendar Quarter in an amount equal to the Minimum Participation. The Executive hereby agrees to execute and deliver any documents reasonably requested by the Company and hereby appoints the Company as the Executive's agent and attorney-in-fact to execute and deliver such documents if the Executive fails or refuses to execute such documents. The Executive further agrees to pay all joint interest billings within one hundred fifty (150) days after receipt. For purposes of this Agreement, the term "Calendar Quarter" means the three (3) month periods commencing on the first (1st) day of January, April, July and October.

3.2 Other Activities. The Executive currently conducts oil and gas investment activities individually and through Chesapeake Investments, an Oklahoma Limited Partnership ("Investments"), Chesapeake Production Company, an Oklahoma corporation ("Production"), and Chesapeake/Wood Joint Venture ("Venture"). The Executive will be permitted to continue oil and gas activities in such entities but only to the extent such activities are conducted on oil and



gas leases or interests owned by the Executive, Investments, Production or Venture as of July 1, 1995, or acquired by Investments, production or Venture from the Company. The interests acquired by Investments shall be limited by the provisions of paragraph 3.1 of this Agreement. The Company also consents to the Executive serving on the Board of Directors of American Bank and Trust Company, located in Edmond, OK.

4. Executive's Compensation. The Company agrees to compensate the Executive as follows:

- 4.1 Base Salary. A base salary (the "Base Salary"), at the initial annual rate of not less than Three Hundred Thousand Dollars (\$300,000.00), will be paid to the Executive in equal semi-monthly installments beginning July 15, 1997 during the term of this Agreement.
- 4.2 Bonus. In addition to the Base Salary described at paragraph 4.1 of this Agreement, the Company may periodically pay bonus compensation to the Executive. Any bonus compensation will be at the absolute discretion of the Company in such amounts and at such times as the board of directors of the Company may determine.
- 4.3 Stock Options. In addition to the compensation set forth in paragraphs 4.1 and 4.2 of this Agreement, the Executive may periodically receive grants of stock options from the Company's various stock option plans, subject to the terms and conditions thereof.
- 4.4 Benefits. The Company will provide the Executive such retirement benefits, reimbursement of reasonable expenditures for dues, travel and entertainment and such other benefits as are customarily provided by the Company and as are set forth in the Company's Employment Policies Manual. The Company will also provide the Executive the opportunity to apply for coverage under the Company's medical, life and disability plans, if any. If the Executive is accepted for coverage under such plans, the Company will provide such coverage on the same terms as is customarily provided by the Company to the plan participants as modified from time to time. The following specific benefits will also be provided to the Executive at the expense of the Company:
- 4.4.1 Vacation. The Executive will be entitled to take three (3) weeks of paid vacation each twelve months during the term of this Agreement. No additional compensation will be paid for failure to take vacation and no vacation may be carried forward from one twelve month period to another.
- 4.4.2 Membership Dues. The Company will reimburse the Executive for: (a) the monthly dues necessary to maintain a full membership in a golf

and/or country club in the Oklahoma City area as the Executive may select; and (b) the reasonable cost of any qualified business entertainment at such country club. All other costs, including, without implied limitation, any initiation costs, initial membership costs, personal use and business entertainment unrelated to the Company will be the sole obligation of the Executive and the Company will have no liability with respect to such amounts.

- 4.4.3 Compensation Review. The compensation of the Executive will be reviewed not less frequently than annually by the board of directors of the Company. The compensation of the Executive prescribed by paragraph 4 of this Agreement may be increased at the discretion of the Company, but may not be reduced without the prior written consent of the Executive.
- 4.4.4 Automobile and Travel Allowance. The Executive will receive a monthly cash allowance in the amount of One Thousand Five Hundred Dollars (\$1,500.00) to defer a portion of the Executive's cost of acquiring, operating and maintaining an automobile for use in the Executive's employment. Additionally, the Executive will be entitled to utilize any aircraft owned by the Company (whether in whole or in part) for personal use and will not be required to reimburse the Company for any cost related to such use or pay any cost or charge with respect to such use up to an amount during any fiscal year equal to the Aircraft Allowance. For purposes of this Agreement the term "Aircraft Allowance" means the variable costs directly identifiable with each use (including fuel, pilot charges, landing fees, hourly charges under co-ownership arrangements and other such costs) but specifically excluding any fixed costs of the aircraft (including acquisition costs and depreciation) and will be equal to \$40,000.00 for the Company's fiscal year ending on June 30, 1997, and \$50,000.00 for each fiscal year thereafter during the term of this Agreement. If the Executive's use of the Company's aircraft exceeds the Aircraft Allowance during any fiscal year the Executive will be required to reimburse the Company for the variable costs directly identified with each such use.
- 4.4.5 Accounting Support. The Executive will be permitted to utilize the Company's office space, computer facilities and the equivalent of one (1) full-time accounting employee (presently Linda Peterburs) of the Company to maintain books and records for the Executive and the Executive's Permitted Activities. The Executive will not be required to pay any compensation to the Company in connection with such accounting services.

5. Term. In the absence of termination as set forth in paragraph 6 below, this Agreement will extend for a term of three (3) years commencing on July 1, 1997, and ending on June 30, 2000 (the "Expiration Date"). Unless the Company provides thirty (30) days prior written notice of nonextension to the Executive, on each June 30 during the term of this Agreement, the term will be automatically extended for one (1) additional year so that the remaining term on this Agreement will be not less than two (2) and not more than three (3) years.

6. Termination. This Agreement will continue in effect until the expiration of the term stated at paragraph 5 of this Agreement unless earlier terminated pursuant to this paragraph 6.

6.1 Termination by Company. The Company will have the following rights to terminate this Agreement:

6.1.1 Termination without Cause. The Company may terminate this Agreement without cause at any time by the service of written notice of termination to the Executive specifying an effective date of such termination not sooner than sixty (60) business days after the date of such notice (the "Termination Date"). In the event the Executive is terminated without cause, the Executive will receive as termination compensation: (a) continuation of the Base Salary provided by paragraph 4.1 during the portion of the contract period remaining after the date of the Executive's termination, but in any event, through the Expiration Date; (b) any benefits payable by operation of paragraph 4.4 of this Agreement during the portion of the contract period remaining after the date of the Executive's termination, but in any event, through the Expiration Date; and (c) any vacation pay accrued through the Termination Date. The termination compensation in (a) shall be paid only if the Executive executes the Company's standard termination agreement releasing all legally waivable claims arising from the Executive's employment.

6.1.2 Termination for Cause. The Company may terminate this Agreement for cause if the Executive: (a) misappropriates the property of the Company or commits any other act of dishonesty; (b) engages in personal misconduct which materially injures the Company; (c) willfully violates any law or regulation relating to the business of the Company which results in injury to the Company; or (d) willfully and repeatedly fails to perform the Executive's duties hereunder. In the event this Agreement is terminated for cause, the Company will not have any obligation to provide any further payments or benefits to the Executive after the effective date of such termination. This Agreement will not be deemed to have terminated for cause unless a written determination specifying the

reasons for such termination is made, approved by a majority of the disinterested members of the board of directors of the Company and delivered to the Executive. Thereafter, the Executive will have the right for a period of twenty (20) days to request a board of directors meeting to be held at a mutually agreeable time and location within thirty (30) days, at which meeting the Executive will have an opportunity to be heard. Failing such determination and opportunity for hearing, any termination of this Agreement will be deemed to have occurred without cause.

6.1.3 Termination After Change in Control. If, during the term of this Agreement, there is a "Change of Control" and within one (1) year thereafter: (a) this Agreement expires and is not extended; or (b) the Executive is terminated other than under paragraphs 6.1.2, 6.3 or 6.4 based on adequate grounds; or (c) the Executive resigns as a result of a reassignment of duties inconsistent with the Executive's position, a reduction in the Executive's then current compensation under paragraph 4 of this Agreement, or a required relocation more than 25 miles from the Executive's then current place of employment, then the Executive will be entitled to a severance payment (in addition to any other amounts payable to the Executive under this Agreement or otherwise) in an amount equal to thirty six (36) months of Base Salary as set forth in paragraph 4.1 of this Agreement. The term "Change of Control" means any action of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A under the Securities Exchange Act of 1934 with respect to the Company including, without limitation (i) the direct or indirect acquisition by any person after the date hereof of beneficial ownership of the right to vote or securities of the Company representing the right to vote thirty five percent (35%) or more of the combined voting power of the Company's then outstanding securities having the right to vote for the election of directors, or (ii) within two years of a tender offer or exchange offer for the voting stock of the Company or as a result of a merger, consolidation, sale of assets or contested election (or any combination of the foregoing), a majority of the members of the Company's board of directors is replaced by directors who were not nominated and approved by the board of directors.

6.2 Termination by Executive. The Executive may voluntarily terminate this Agreement with or without cause by the service of written notice of such termination to the Company specifying an effective date of such termination sixty (60) days after the date of such notice, during which time Executive may use remaining accrued vacation days, or at the Company's option, be paid for such days. In the event this Agreement is terminated by the Executive,

neither the Company nor the Executive will have any further obligations hereunder including, without limitation, any obligation of the Company to provide any further payments or benefits to the Executive after the effective date of such termination.

- 6.3 Incapacity of Executive. If the Executive suffers from a physical or mental condition which in the reasonable judgment of the Company's management prevents the Executive in whole or in part from performing the duties specified herein for a period of three (3) consecutive months, the Executive may be terminated. Although the termination shall be deemed as a termination with cause, any compensation payable under paragraph 4 of this Agreement will be continued through the remaining contract period, but in any event, through the Expiration Date. Notwithstanding the foregoing, the Executive's Base Salary specified in paragraph 4.1 of this Agreement shall be reduced by any benefits payable under any disability plans.
- 6.4 Death of Executive. If the Executive dies during the term of this Agreement, the Company may thereafter terminate this Agreement without compensation to the Executive's estate except: (a) the obligation to continue the Base Salary payments under paragraph 4.1 of this Agreement for twelve (12) months and (b) the benefits described in paragraph 4.4 of this Agreement accrued through the effective date of such termination.
- 6.5 Effect of Termination. The termination of this Agreement will terminate all obligations of the Executive to render services on behalf of the Company, provided that the Executive will maintain the confidentiality of all information acquired by the Executive during the term of his employment in accordance with paragraph 7 of this Agreement. Except as otherwise provided in paragraph 6 of this Agreement, no accrued bonus, severance pay or other form of compensation will be payable by the Company to the Executive by reason of the termination of this Agreement. All keys, entry cards, credit cards, files, records, financial information, furniture, furnishings, equipment, supplies and other items relating to the Company will remain the property of the Company. The Executive will have the right to retain and remove all personal property and effects which are owned by the Executive and located in the offices of the Company. All such personal items will be removed from such offices no later than seven (7) days after the effective date of termination, and the Company is hereby authorized to discard any items remaining and to reassign the Executive's office space after such date. Prior to the effective date of termination, the Executive will render such services to the Company as might be reasonably required to provide for the orderly termination of the Executive's employment.

7. Confidentiality. The Executive recognizes that the nature of the Executive's services are such that the Executive will have access to information which constitutes trade secrets, is of a confidential nature, is of great value to the Company or is the foundation on which the business of the Company is predicated. The Executive agrees not to disclose to any person other than the Company's employees or the Company's legal counsel nor use for any purpose, other than the performance of this Agreement, any confidential information ("Confidential Information"). Confidential Information includes data or material (regardless of form) which is: (a) a trade secret; (b) provided, disclosed or delivered to Executive by the Company, any officer, director, employee, agent, attorney, accountant, consultant, or other person or entity employed by the Company in any capacity, any customer, borrower or business associate of the Company or any public authority having jurisdiction over the Company of any business activity conducted by the Company; or (c) produced, developed, obtained or prepared by or on behalf of Executive or the Company (whether or not such information was developed in the performance of this Agreement) with respect to the Company or any assets oil and gas prospects, business activities, officers, directors, employees, borrowers or customers of the foregoing. However, Confidential Information shall not include any information, data or material which at the time of disclosure or use was generally available to the public other than by a breach of this Agreement, was available to the party to whom disclosed on a non-confidential basis by disclosure or access provided by the Company or a third party, or was otherwise developed or obtained independently by the person to whom disclosed without a breach of this Agreement. On request by the Company, the Company will be entitled to a copy of any Confidential Information in the possession of the Executive. The Executive also agrees that the provisions of this paragraph 7 will survive the termination, expiration or cancellation of this Agreement for a period of five (5) years. The Executive will deliver to the Company all originals and copies of the documents or materials containing Confidential Information. For purposes of paragraphs 7, 8, and 9 of this Agreement, the Company expressly includes any of the Company's affiliated corporations, partnerships or entities.

8. Noncompetition. For a period of twelve (12) months after Executive is no longer employed by the Company as a result of either the resignation by the Executive pursuant to paragraph 6.2 above, or Termination for Cause pursuant to paragraph 6.1.2 above, Executive will not: (a) acquire, attempt to acquire or aid another in the acquisition or attempted acquisition of an interest in oil and gas assets, oil and gas production, oil and gas leases, mineral interests, oil and gas wells or other such oil and gas exploration, development or production activities within five (5) miles of any operations or ownership interests of the Company or its affiliated corporations, partnerships or entities, provided, however, this provision shall not apply to acquisitions within said five (5) mile radius of assets or activities of a successor entity resulting from a "Change in Control" as described in paragraph 6.1.3., which assets were owned or activities were being conducted (1) prior to the date of such Change in Control, or (2) after such Change in Control but for which the Executive had no material responsibility; and; (b) for the Executive's own account or for the benefit of another party solicit, induce, entice or attempt to entice any employee, contractor, customer, vendor or subcontractor to terminate or breach any relationship with the Company or the Company's affiliates. The Executive further agrees that the Executive

will not circumvent or attempt to circumvent the foregoing agreements by any future arrangement or through the actions of a third party.

9. Proprietary Matters. The Executive expressly understands and agrees that any and all improvements, inventions, discoveries, processes or know-how that are generated or conceived by the Executive during the term of this Agreement, whether generated or conceived during the Executive's regular working hours or otherwise, will be the sole and exclusive property of the Company. Whenever requested by the Company (either during the term of this Agreement or thereafter), the Executive will assign or execute any and all applications, assignments and or other instruments and do all things which the Company deems necessary or appropriate in order to permit the Company to: (a) assign and convey or otherwise make available to the Company the sole and exclusive right, title, and interest in and to said improvements, inventions, discoveries, processes, know-how, applications, patents, copyrights, trade names or trademarks; or (b) apply for, obtain, maintain, enforce and defend patents, copyrights, trade names, or trademarks of the United States or of foreign countries for said improvements, inventions, discoveries, processes or know-how. However, the improvements, inventions, discoveries, processes or know-how generated or conceived by the Executive and referred to above (except as they may be included in the patents, copyrights or registered trade names or trademarks of the Company, or corporations, partnerships or other entities which may be affiliated with the Company) shall not be exclusive property of the Company at any time after having been disclosed or revealed or have otherwise become available to the public or to a third party on a non-confidential basis other than by a breach of this Agreement, or after they have been independently developed or discussed without a breach of this Agreement by a third party who has no obligation to the Company or its affiliates.

10. Arbitration. The parties will attempt to promptly resolve any dispute or controversy arising out of or relating to this Agreement or termination of the Executive by the Company. Any negotiations pursuant to this paragraph 10 are confidential and will be treated as compromise and settlement negotiations for all purposes. If the parties are unable to reach a settlement amicably, the dispute will be submitted to binding arbitration before a single arbitrator in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association. The arbitrator will be instructed and empowered to take reasonable steps to expedite the arbitration and the arbitrator's judgment will be final and binding upon the parties subject solely to challenge on the grounds of fraud or gross misconduct. Except for damages arising out of a breach of paragraphs 7, 8 or 9 of this Agreement, the arbitrator is not empowered to award total damages (including compensatory damages) which exceed 300% of compensatory damages and each party hereby irrevocably waives any damages in excess of that amount. The arbitration will be held in Oklahoma County, Oklahoma. Judgment upon any verdict in arbitration may be entered in any court of competent jurisdiction and the parties hereby consent to the jurisdiction of, and proper venue in, the federal and state courts located in Oklahoma County, Oklahoma. Each party will bear its own costs in connection with the arbitration and the costs of the arbitrator will be borne by the party who the arbitrator determines did not prevail in the matter. Unless otherwise expressly set forth in this Agreement, the procedures specified in this paragraph 10 will be

the sole and exclusive procedures for the resolution of disputes and controversies between the parties arising out of or relating to this Agreement. Notwithstanding the foregoing, a party may seek a preliminary injunction or other provisional judicial relief if in such party's judgment such action is necessary to avoid irreparable damage or to preserve the status quo.

11. Miscellaneous. The parties further agree as follows:

- 11.1 Time. Time is of the essence of each provision of this Agreement.
- 11.2 Notices. Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement will be in writing and will be deemed to have been given when delivered personally or by telefacsimile to the party designated to receive such notice, or on the date following the day sent by overnight courier, or on the third (3rd) business day after the same is sent by certified mail, postage and charges prepaid, directed to the following address or to such other or additional addresses as any party might designate by written notice to the other party:
- To the Company: Chesapeake Energy Corporation  
Post Office Box 18496  
Oklahoma City, OK 73154-0496  
Attn: Aubrey K. McClendon
- To the Executive: Mr. Aubrey K. McClendon  
1214 Larchmont Lane  
Oklahoma City, OK 73116  
Fax: (405) 843-8482
- 11.3 Assignment. Neither this Agreement nor any of the parties' rights or obligations hereunder can be transferred or assigned without the prior written consent of the other parties to this Agreement.
- 11.4 Construction. If any provision of this Agreement or the application thereof to any person or circumstances is determined, to any extent, to be invalid or unenforceable, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which the same is held invalid or unenforceable, will not be affected thereby, and each term and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law. This Agreement is intended to be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma and any litigation relating to this Agreement will be conducted in a court of competent jurisdiction sitting in Oklahoma County, Oklahoma.



- 11.5 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter herein contained, and no modification hereof will be effective unless made by a supplemental written agreement executed by all of the parties hereto.
- 11.6 Binding Effect. This Agreement will be binding on the parties and their respective successors, legal representatives and permitted assigns. In the event of a merger, consolidation, combination, dissolution or liquidation of the Company, the performance of this Agreement will be assumed by any entity which succeeds to or is transferred the business of the Company as a result thereof.
- 11.7 Attorneys' Fees. If any party institutes an action or proceeding against any other party relating to the provisions of this Agreement or any default hereunder, the unsuccessful party to such action or proceeding will reimburse the successful party therein for the reasonable expenses of attorneys' fees and disbursements and litigation expenses incurred by the successful party.
- 11.8 Supercession. On execution of this Agreement by the Company and the Executive, the relationship between the Company and the Executive will be bound by the terms of this Agreement and the Employment Policies Manual and not by any other agreements or otherwise. In the event of a conflict between the Employment Policies Manual and this Agreement, this Agreement will control in all respects.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective the date first above written.

CHESAPEAKE ENERGY CORPORATION, an  
Oklahoma corporation

By: /s/ TOM L. WARD

-----  
Tom L. Ward, President  
(the "Company")

By: /S/ AUBREY K. McCLENDON

-----  
Aubrey K. McClendon, Individually  
(the "Executive")

EMPLOYMENT AGREEMENT

between

TOM L. WARD

and

CHESAPEAKE ENERGY CORPORATION

Effective July 1, 1997

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## EMPLOYMENT AGREEMENT

THIS AGREEMENT is made effective July 1, 1997, between CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), and TOM L. WARD, an individual (the "Executive") and replaces and supersedes that certain Employment Agreement between Company and Executive dated July 1, 1995.

## W I T N E S S E T H:

WHEREAS, the Company desires to retain the services of the Executive and the Executive desires to make the Executive's services available to the Company.

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Company and the Executive agree as follows:

1. Employment. The Company hereby employs the Executive and the Executive hereby accepts such employment subject to the terms and conditions contained in this Agreement. The Executive is engaged as an employee of the Company, and the Executive and the Company do not intend to create a joint venture, partnership or other relationship which might impose a fiduciary obligation on the Executive or the Company in the performance of this Agreement.
2. Executive's Duties. The Executive is employed on a full-time basis. Throughout the term of this Agreement, the Executive will use the Executive's best efforts and due diligence to assist the Company in achieving the most profitable operation of the Company and the Company's affiliated entities consistent with developing and maintaining a quality business operation.
  - 2.1 Specific Duties. The Executive will serve as President and Chief Operating Officer for the Company. From time to time, the Executive may be appointed as an officer of one (1) or more of the Company's subsidiaries. During the term of this Agreement, the Executive will be nominated for election or appointed to serve as a director of the Company and one (1) or more of the Company's subsidiaries. The Executive will perform all of the services required to fully and faithfully execute the office and position to which the Executive is appointed and such other services as may be reasonably directed by the board of directors of the Company.
  - 2.2 Modifications. The precise duties to be performed by the Executive may be extended or curtailed in the discretion of the respective boards of directors of the Company. However, except for termination for cause under paragraph 6.1.2 of this Agreement, the failure of the Executive to be elected, be reelected or serve as a director of the Company during the term of this Agreement, the

removal of the Executive as a member of the board of directors of the Company, the withdrawal of the designation of the Executive as President and Chief Operating Officer of the Company, or the assignment of the performance of duties incumbent on the foregoing offices to other persons without the prior written consent of the Executive will constitute termination without cause by the Company.

- 2.3 Rules and Regulations. The Company currently has an Employment Policies Manual which addresses frequently asked questions regarding the Company. The Executive agrees to comply with the Employment Policies Manual except to the extent inconsistent with this Agreement. The Employment Policies Manual is subject to change without notice in the sole discretion of the Company at any time.
- 2.4 Stock Investment. For each calendar year during which this Agreement is in effect, the Executive agrees to hold shares of the Company's common stock having aggregate Investment Value equal to five hundred percent (500%) of the compensation paid to the Executive under paragraphs 4.1 and 4.2 of this Agreement during such calendar year. For purposes of this section, the "Investment Value" of each share of stock will be the higher of either (a) the price paid by the Executive for such share as part of an open market purchase; or (b) the fair market value on the date of exercise for shares acquired through the exercise of employee stock options. Any shares of common stock acquired by the Executive prior to the date of this Agreement and still owned by the Executive during the term of this Agreement may be used to satisfy this requirement to acquire common stock. The Investment Value for previously acquired stock shall be calculated using the average stock price during the first six months of this Agreement.

The stock acquired or owned pursuant to this paragraph 2.4 must be held by the Executive at all times during the Executive's employment by the Company or the Company's affiliated entities. In order to administer this provision, the Executive agrees to return to the Company's Chief Executive Officer a semi-annual report of purchases and ownership in a form prepared by the Company. This paragraph will become null and void if the Company's common stock ceases to be listed on the New York Stock Exchange or on the National Association of Securities Dealers Automated Quotation System. The Company has no obligation to sell or to purchase from the Executive any of the Company's stock in connection with this paragraph 2.4 and has made no representations or warranties regarding the Company's stock, operations or financial condition.

3. Other Activities. Except for the activities (the "Permitted Activities") expressly permitted by paragraphs 3.1 and 3.2 of this Agreement, or the prior written approval of the board of directors of the Company, the Executive will not: (a) engage in business independent of the

Executive's employment by the Company which requires any substantial portion of the Executive's time; (b) serve as an officer, general partner or member in any corporation, partnership, company, or firm; (c) directly or indirectly invest in, participate in or acquire an interest in any oil and gas business, including, without limitation, (i) producing oil and gas, (ii) drilling, owning or operating oil and gas leases or wells, (iii) providing services or materials to the oil and gas industry, (iv) marketing or refining oil or gas, or (v) owning any interest in any corporation, partnership, company or entity which conducts any of the foregoing activities. The limitation in this paragraph 3 will not prohibit an investment by the Executive in publicly traded securities. Notwithstanding the foregoing, the Executive will be permitted to participate in the following activities which will be deemed to be approved by the Company, if such activities are undertaken in strict compliance with this Agreement.

- 3.1 Company's Activities. The Executive or the Executive's designated affiliate will be permitted to acquire a working interest in all of the wells spudded by the Company or the Company's subsidiary corporations, partnerships or entities (the "Program Wells") during any Calendar Quarter (as hereafter defined) on the terms and conditions set forth herein. The Program Wells include any well spudded during such Calendar Quarter in which the Company or the Company's subsidiary corporations, partnerships or entities participate as a nonoperator.
- 3.1.1 Amount of Participation. On or before the date which is thirty (30) days before the first (1st) day of each Calendar Quarter, the Executive will provide notice to the compensation committee of the Company's board of directors of the Executive's intent to participate in the Program Wells during the succeeding Calendar Quarter and the approximate percentage working interest which the Executive proposes to participate with during such Calendar Quarter. The Executive's percentage working interest in the Program Wells spudded during such Calendar Quarter will be subject to approval by the disinterested members of the compensation committee of the Company's board of directors and to the limitations set forth herein (the "Approved Percentage"). The Executive's Approved Percentage working Interest participation (determined without consideration of any carried interest) in the Program Wells for any Calendar Quarter will not exceed two and one-half percent (2.5%) on an eight-eighths (8/8ths) basis. On designation of the Approved Percentage for a Calendar Quarter, the Executive will be deemed to have elected to participate in each Program Well spudded during such calendar Quarter with a working interest equal to the following applicable percentage determined on a well-by-well basis (the "Minimum Participation"):
- (a) the Approved Percentage for a Program Well which does not fall within clause (b) of this paragraph 3.1.1 or an Operations Well; or (b) zero percent (0%) if the combined participation in the Program Well by the Executive, Mr. Aubrey K. McClendon and Mr. Marcus C. Rowland with such

individuals' Approved Percentage under their respective employment agreements causes the Company's working interest (determined without consideration of any carried interest) on the spud date for such Program Well to be less than twelve and one-half percent (12.5%) on an eight-eighths (8/8ths) basis. If clause (b) of this paragraph 3.1.1 prohibits the Executive's participation in a Program Well, then Messrs. McClendon and Rowland will not be entitled to participate in such Program Well under their employment agreements. An "Operations Well" means a Program Well which falls within the provisions of clause (b) of this paragraph 3.1.1, but for which the Executive's participation is deemed necessary for the Company to retain operations as determined by the disinterested members of the compensation committee of the Company's board of directors. If the Executive fails to provide notice of the Executive's intent to participate and the Executive's proposed participation prior to the specified date as provided herein, the amount of the Approved Percentage for the Calendar Quarter will be deemed to be zero (0).

3.1.2 Conditions of Participation. The Participation by the Executive in each Program Well will be on no better terms than the terms agreed to by unaffiliated third party participants in connection with the acquisition of an interest in such Program Well from the Company or its subsidiary corporations, partnerships or entities. The Approved Percentage cannot be changed during any Calendar Quarter without the prior approval of the disinterested members of the compensation committee of the Company's board of directors. Any participation by the Executive under this paragraph 3.1 is also conditioned upon the Executive's participation in each Program Well spudded during such Calendar Quarter in an amount equal to the Minimum Participation. The Executive hereby agrees to execute and deliver any documents reasonably requested by the Company and hereby appoints the Company as the Executive's agent and attorney-in-fact to execute and deliver such documents if the Executive fails or refuses to execute such documents. The Executive further agrees to pay all joint interest billings within one hundred fifty (150) days after receipt. For purposes of this Agreement, the term "Calendar Quarter" means the three (3) month periods commencing on the first (1st) day of January, April, July and October.

3.2 Other Activities. The Executive currently conducts oil and gas investment activities individually and through TLW Production Company, an Oklahoma corporation ("Production"), and TLW Investments, Inc., an Oklahoma corporation ("Investments"). The Executive will be permitted to continue oil and gas activities in such entities, but only to the extent such activities are conducted on oil and gas leases or interests owned by the Executive,



Production or Investments as of July 1, 1995, or acquired by Production or Investments from the Company. The interests acquired by Investments shall be limited by the provisions of paragraph 3.1 of this Agreement.

4. Executive's Compensation. The Company agrees to compensate the Executive as follows:

- 4.1 Base Salary. A base salary (the "Base Salary"), at the initial annual rate of not less than Three Hundred Thousand Dollars (\$300,000.00), will be paid to the Executive in equal semi-monthly installments beginning July 15, 1997 during the term of this Agreement.
- 4.2 Bonus. In addition to the Base Salary described at paragraph 4.1 of this Agreement, the Company may periodically pay bonus compensation to the Executive. Any bonus compensation will be at the absolute discretion of the Company in such amounts and at such times as the board of directors of the Company may determine.
- 4.3 Stock Options. In addition to the compensation set forth in paragraphs 4.1 and 4.2 of this Agreement, the Executive may periodically receive grants of stock options from the Company's various stock option plans, subject to the terms and conditions thereof.
- 4.4 Benefits. The Company will provide the Executive such retirement benefits, reimbursement of reasonable expenditures for dues, travel and entertainment and such other benefits as are customarily provided by the Company and as are set forth in the Company's Employment Policies Manual. The Company will also provide the Executive the opportunity to apply for coverage under the Company's medical, life and disability plans, if any. If the Executive is accepted for coverage under such plans, the Company will provide such coverage on the same terms as is customarily provided by the Company to the plan participants as modified from time to time. The following specific benefits will also be provided to the Executive at the expense of the Company:
  - 4.4.1 Vacation. The Executive will be entitled to take three (3) weeks of paid vacation each twelve months during the term of this Agreement. No additional compensation will be paid for failure to take vacation and no vacation may be carried forward from one twelve month period to another.
  - 4.4.2 Membership Dues. The Company will reimburse the Executive for: (a) the monthly dues necessary to maintain a full membership in a golf and/or country club in the Oklahoma City area as the Executive may select; and (b) the reasonable cost of any qualified business entertainment at such country club. All other costs, including, without

implied limitation, any initiation costs, initial membership costs, personal use and business entertainment unrelated to the Company will be the sole obligation of the Executive and the Company will have no liability with respect to such amounts.

- 4.4.3 Compensation Review. The compensation of the Executive will be reviewed not less frequently than annually by the board of directors of the Company. The compensation of the Executive prescribed by paragraph 4 of this Agreement may be increased at the discretion of the Company, but may not be reduced without the prior written consent of the Executive.
- 4.4.4 Automobile and Travel Allowance. The Executive will receive a monthly cash allowance in the amount of One Thousand Five Hundred Dollars (\$1,500.00) to defer a portion of the Executive's cost of acquiring, operating and maintaining an automobile for use in the Executive's employment. Additionally, the Executive will be entitled to utilize any aircraft owned by the Company (whether in whole or in part) for personal use and will not be required to reimburse the Company for any cost related to such use or pay any cost or charge with respect to such use up to an amount during any fiscal year equal to the Aircraft Allowance. For purposes of this Agreement the term "Aircraft Allowance" means the variable costs directly identifiable with each use (including fuel, pilot charges, landing fees, hourly charges under co-ownership arrangements and other such costs) but specifically excluding any fixed costs of the aircraft (including acquisition costs and depreciation) and will be equal to \$40,000.00 for the Company's fiscal year ending on June 30, 1997, and \$50,000.00 for each fiscal year thereafter during the term of this Agreement. If the Executive's use of the Company's aircraft exceeds the Aircraft Allowance during any fiscal year the Executive will be required to reimburse the Company for the variable costs directly identified with each such use.
- 4.4.5 Accounting Support. The Executive will be permitted to utilize the Company's office space, computer facilities and the equivalent of one (1) full-time accounting employee (presently Cheryl Hamilton) of the Company to maintain books and records for the Executive and the Executive's Permitted Activities. The Executive will not be required to pay any compensation to the Company in connection with such accounting services.

5. Term. In the absence of termination as set forth in paragraph 6 below, this Agreement will extend for a term of three (3) years commencing on July 1, 1997, and ending on June 30, 2000 (the "Expiration Date"). Unless the Company provides thirty (30) days prior written notice of nonextension to the Executive, on each June 30 during the term of this

Agreement, the term will be automatically extended for one (1) additional year so that the remaining term on this Agreement will be not less than two (2) and not more than three (3) years.

6. Termination. This Agreement will continue in effect until the expiration of the term stated at paragraph 5 of this Agreement unless earlier terminated pursuant to this paragraph 6.

6.1 Termination by Company. The Company will have the following rights to terminate this Agreement:

6.1.1 Termination without Cause. The Company may terminate this Agreement without cause at any time by the service of written notice of termination to the Executive specifying an effective date of such termination not sooner than sixty (60) business days after the date of such notice (the "Termination Date"). In the event the Executive is terminated without cause, the Executive will receive as termination compensation: (a) continuation of the Base Salary provided by paragraph 4.1 during the portion of the contract period remaining after the date of the Executive's termination, but in any event, through the Expiration Date; (b) any benefits payable by operation of paragraph 4.4 of this Agreement during the portion of the contract period remaining after the date of the Executive's termination, but in any event, through the Expiration Date; and (c) any vacation pay accrued through the Termination Date. The termination compensation in (a) shall be paid only if the Executive executes the Company's standard termination agreement releasing all legally waivable claims arising from the Executive's employment.

6.1.2 Termination for Cause. The Company may terminate this Agreement for cause if the Executive: (a) misappropriates the property of the Company or commits any other act of dishonesty; (b) engages in personal misconduct which materially injures the Company; (c) willfully violates any law or regulation relating to the business of the Company which results in injury to the Company; or (d) willfully and repeatedly fails to perform the Executive's duties hereunder. In the event this Agreement is terminated for cause, the Company will not have any obligation to provide any further payments or benefits to the Executive after the effective date of such termination. This Agreement will not be deemed to have terminated for cause unless a written determination specifying the reasons for such termination is made, approved by a majority of the disinterested members of the board of directors of the Company and delivered to the Executive. Thereafter, the Executive will have the right for a period of twenty (20) days to request a board of

directors meeting to be held at a mutually agreeable time and location within thirty (30) days, at which meeting the Executive will have an opportunity to be heard. Failing such determination and opportunity for hearing, any termination of this Agreement will be deemed to have occurred without cause.

6.1.3 Termination After Change in Control. If, during the term of this Agreement, there is a "Change of Control" and within one (1) year thereafter: (a) this Agreement expires and is not extended; or (b) the Executive is terminated other than under paragraphs 6.1.2, 6.3 or 6.4 based on adequate grounds; or (c) the Executive resigns as a result of a reassignment of duties inconsistent with the Executive's position, a reduction in the Executive's then current compensation under paragraph 4 of this Agreement, or a required relocation more than 25 miles from the Executive's then current place of employment, then the Executive will be entitled to a severance payment (in addition to any other amounts payable to the Executive under this Agreement or otherwise) in an amount equal to thirty six (36) months of Base Salary as set forth in paragraph 4.1 of this Agreement. The term "Change of Control" means any action of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A under the Securities Exchange Act of 1934 with respect to the Company including, without limitation (i) the direct or indirect acquisition by any person after the date hereof of beneficial ownership of the right to vote or securities of the Company representing the right to vote thirty five percent (35%) or more of the combined voting power of the Company's then outstanding securities having the right to vote for the election of directors, or (ii) within two years of a tender offer or exchange offer for the voting stock of the Company or as a result of a merger, consolidation, sale of assets or contested election (or any combination of the foregoing), a majority of the members of the Company's board of directors is replaced by directors who were not nominated and approved by the board of directors.

6.2 Termination by Executive. The Executive may voluntarily terminate this Agreement with or without cause by the service of written notice of such termination to the Company specifying an effective date of such termination sixty (60) days after the date of such notice, during which time Executive may use remaining accrued vacation days, or at the Company's option, be paid for such days. In the event this Agreement is terminated by the Executive, neither the Company nor the Executive will have any further obligations hereunder including, without limitation, any obligation of the Company to provide any further payments or benefits to the Executive after the effective date of such termination.

- 6.3 Incapacity of Executive. If the Executive suffers from a physical or mental condition which in the reasonable judgment of the Company's management prevents the Executive in whole or in part from performing the duties specified herein for a period of three (3) consecutive months, the Executive may be terminated. Although the termination shall be deemed as a termination with cause, any compensation payable under paragraph 4 of this Agreement will be continued through the remaining contract period, but in any event, through the Expiration Date. Notwithstanding the foregoing, the Executive's Base Salary specified in paragraph 4.1 of this Agreement shall be reduced by any benefits payable under any disability plans.
- 6.4 Death of Executive. If the Executive dies during the term of this Agreement, the Company may thereafter terminate this Agreement without compensation to the Executive's estate except: (a) the obligation to continue the Base Salary payments under paragraph 4.1 of this Agreement for twelve (12) months and (b) the benefits described in paragraph 4.4 of this Agreement accrued through the effective date of such termination.
- 6.5 Effect of Termination. The termination of this Agreement will terminate all obligations of the Executive to render services on behalf of the Company, provided that the Executive will maintain the confidentiality of all information acquired by the Executive during the term of his employment in accordance with paragraph 7 of this Agreement. Except as otherwise provided in paragraph 6 of this Agreement, no accrued bonus, severance pay or other form of compensation will be payable by the Company to the Executive by reason of the termination of this Agreement. All keys, entry cards, credit cards, files, records, financial information, furniture, furnishings, equipment, supplies and other items relating to the Company will remain the property of the Company. The Executive will have the right to retain and remove all personal property and effects which are owned by the Executive and located in the offices of the Company. All such personal items will be removed from such offices no later than seven (7) days after the effective date of termination, and the Company is hereby authorized to discard any items remaining and to reassign the Executive's office space after such date. Prior to the effective date of termination, the Executive will render such services to the Company as might be reasonably required to provide for the orderly termination of the Executive's employment.

7. Confidentiality. The Executive recognizes that the nature of the Executive's services are such that the Executive will have access to information which constitutes trade secrets, is of a confidential nature, is of great value to the Company or is the foundation on which the business of the Company is predicated. The Executive agrees not to disclose to any person other than the Company's employees or the Company's legal counsel nor use for any

purpose, other than the performance of this Agreement, any confidential information ("Confidential Information"). Confidential Information includes data or material (regardless of form) which is: (a) a trade secret; (b) provided, disclosed or delivered to Executive by the Company, any officer, director, employee, agent, attorney, accountant, consultant, or other person or entity employed by the Company in any capacity, any customer, borrower or business associate of the Company or any public authority having jurisdiction over the Company of any business activity conducted by the Company; or (c) produced, developed, obtained or prepared by or on behalf of Executive or the Company (whether or not such information was developed in the performance of this Agreement) with respect to the Company or any assets oil and gas prospects, business activities, officers, directors, employees, borrowers or customers of the foregoing. However, Confidential Information shall not include any information, data or material which at the time of disclosure or use was generally available to the public other than by a breach of this Agreement, was available to the party to whom disclosed on a non-confidential basis by disclosure or access provided by the Company or a third party, or was otherwise developed or obtained independently by the person to whom disclosed without a breach of this Agreement. On request by the Company, the Company will be entitled to a copy of any Confidential Information in the possession of the Executive. The Executive also agrees that the provisions of this paragraph 7 will survive the termination, expiration or cancellation of this Agreement for a period of five (5) years. The Executive will deliver to the Company all originals and copies of the documents or materials containing Confidential Information. For purposes of paragraphs 7, 8, and 9 of this Agreement, the Company expressly includes any of the Company's affiliated corporations, partnerships or entities.

8. Noncompetition. For a period of twelve (12) months after Executive is no longer employed by the Company as a result of either the resignation by the Executive pursuant to paragraph 6.2 above, or Termination for Cause pursuant to paragraph 6.1.2 above, Executive will not: (a) acquire, attempt to acquire or aid another in the acquisition or attempted acquisition of an interest in oil and gas assets, oil and gas production, oil and gas leases, mineral interests, oil and gas wells or other such oil and gas exploration, development or production activities within five (5) miles of any operations or ownership interests of the Company or its affiliated corporations, partnerships or entities, provided, however, this provision shall not apply to acquisitions within said five (5) mile radius of assets or activities of a successor entity resulting from a "Change in Control" as described in paragraph 6.1.3., which assets were owned or activities were being conducted (1) prior to the date of such Change in Control, or (2) after such Change in Control but for which the Executive had no material responsibility; and; (b) for the Executive's own account or for the benefit of another party solicit, induce, entice or attempt to entice any employee, contractor, customer, vendor or subcontractor to terminate or breach any relationship with the Company or the Company's affiliates. The Executive further agrees that the Executive will not circumvent or attempt to circumvent the foregoing agreements by any future arrangement or through the actions of a third party.

9. Proprietary Matters. The Executive expressly understands and agrees that any and all improvements, inventions, discoveries, processes or know-how that are generated or

conceived by the Executive during the term of this Agreement, whether generated or conceived during the Executive's regular working hours or otherwise, will be the sole and exclusive property of the Company. Whenever requested by the Company (either during the term of this Agreement or thereafter), the Executive will assign or execute any and all applications, assignments and or other instruments and do all things which the Company deems necessary or appropriate in order to permit the Company to: (a) assign and convey or otherwise make available to the Company the sole and exclusive right, title, and interest in and to said improvements, inventions, discoveries, processes, know-how, applications, patents, copyrights, trade names or trademarks; or (b) apply for, obtain, maintain, enforce and defend patents, copyrights, trade names, or trademarks of the United States or of foreign countries for said improvements, inventions, discoveries, processes or know-how. However, the improvements, inventions, discoveries, processes or know-how generated or conceived by the Executive and referred to above (except as they may be included in the patents, copyrights or registered trade names or trademarks of the Company, or corporations, partnerships or other entities which may be affiliated with the Company) shall not be exclusive property of the Company at any time after having been disclosed or revealed or have otherwise become available to the public or to a third party on a non-confidential basis other than by a breach of this Agreement, or after they have been independently developed or discussed without a breach of this Agreement by a third party who has no obligation to the Company or its affiliates.

10. Arbitration. The parties will attempt to promptly resolve any dispute or controversy arising out of or relating to this Agreement or termination of the Executive by the Company. Any negotiations pursuant to this paragraph 10 are confidential and will be treated as compromise and settlement negotiations for all purposes. If the parties are unable to reach a settlement amicably, the dispute will be submitted to binding arbitration before a single arbitrator in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association. The arbitrator will be instructed and empowered to take reasonable steps to expedite the arbitration and the arbitrator's judgment will be final and binding upon the parties subject solely to challenge on the grounds of fraud or gross misconduct. Except for damages arising out of a breach of paragraphs 7, 8 or 9 of this Agreement, the arbitrator is not empowered to award total damages (including compensatory damages) which exceed 300% of compensatory damages and each party hereby irrevocably waives any damages in excess of that amount. The arbitration will be held in Oklahoma County, Oklahoma. Judgment upon any verdict in arbitration may be entered in any court of competent jurisdiction and the parties hereby consent to the jurisdiction of, and proper venue in, the federal and state courts located in Oklahoma County, Oklahoma. Each party will bear its own costs in connection with the arbitration and the costs of the arbitrator will be borne by the party who the arbitrator determines did not prevail in the matter. Unless otherwise expressly set forth in this Agreement, the procedures specified in this paragraph 10 will be the sole and exclusive procedures for the resolution of disputes and controversies between the parties arising out of or relating to this Agreement. Notwithstanding the foregoing, a party may seek a preliminary injunction or other provisional judicial relief if in such party's judgment such action is necessary to avoid irreparable damage or to preserve the status quo.

11. Miscellaneous. The parties further agree as follows:

- 11.1 Time. Time is of the essence of each provision of this Agreement.
- 11.2 Notices. Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement will be in writing and will be deemed to have been given when delivered personally or by telefacsimile to the party designated to receive such notice, or on the date following the day sent by overnight courier, or on the third (3rd) business day after the same is sent by certified mail, postage and charges prepaid, directed to the following address or to such other or additional addresses as any party might designate by written notice to the other party:
- To the Company: Chesapeake Energy Corporation  
Post Office Box 18496  
Oklahoma City, OK 73154-0496  
Attn: Aubrey K. McClendon
- To the Executive: Mr. Tom L. Ward  
19200 N. Rockwell Avenue  
Edmond, OK 73003-9200
- 11.3 Assignment. Neither this Agreement nor any of the parties' rights or obligations hereunder can be transferred or assigned without the prior written consent of the other parties to this Agreement.
- 11.4 Construction. If any provision of this Agreement or the application thereof to any person or circumstances is determined, to any extent, to be invalid or unenforceable, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which the same is held invalid or unenforceable, will not be affected thereby, and each term and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law. This Agreement is intended to be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma and any litigation relating to this Agreement will be conducted in a court of competent jurisdiction sitting in Oklahoma County, Oklahoma.
- 11.5 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter herein contained, and no modification hereof will be effective unless made by a supplemental written agreement executed by all of the parties hereto.



- 11.6 Binding Effect. This Agreement will be binding on the parties and their respective successors, legal representatives and permitted assigns. In the event of a merger, consolidation, combination, dissolution or liquidation of the Company, the performance of this Agreement will be assumed by any entity which succeeds to or is transferred the business of the Company as a result thereof.
- 11.7 Attorneys' Fees. If any party institutes an action or proceeding against any other party relating to the provisions of this Agreement or any default hereunder, the unsuccessful party to such action or proceeding will reimburse the successful party therein for the reasonable expenses of attorneys' fees and disbursements and litigation expenses incurred by the successful party.
- 11.8 Supercession. On execution of this Agreement by the Company and the Executive, the relationship between the Company and the Executive will be bound by the terms of this Agreement and the Employment Policies Manual and not by any other agreements or otherwise. In the event of a conflict between the Employment Policies Manual and this Agreement, this Agreement will control in all respects.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective the date first above written.

CHESAPEAKE ENERGY CORPORATION, an  
Oklahoma corporation

By: /s/ AUBREY K. McCLENDON

-----  
Aubrey K. McClendon, Chief Executive Officer  
(the "Company")

By: /s/ TOM L. WARD

-----  
Tom L. Ward, Individually  
(the "Executive")

EMPLOYMENT AGREEMENT

between

MARCUS C. ROWLAND

and

CHESAPEAKE ENERGY CORPORATION

Effective July 1, 1997

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## EMPLOYMENT AGREEMENT

THIS AGREEMENT is made effective July 1, 1997, between CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation (the "Company"), and MARCUS C. ROWLAND, an individual (the "Executive") and replaces and supersedes that certain Employment Agreement between Company and Executive dated March 1, 1995.

## W I T N E S S E T H:

WHEREAS, the Company desires to retain the services of the Executive and the Executive desires to make the Executive's services available to the Company.

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Company and the Executive agree as follows:

1. Employment. The Company hereby employs the Executive and the Executive hereby accepts such employment subject to the terms and conditions contained in this Agreement. The Executive is engaged as an employee of the Company, and the Executive and the Company do not intend to create a joint venture, partnership or other relationship which might impose a fiduciary obligation on the Executive or the Company in the performance of this Agreement.

2. Executive's Duties. The Executive is employed on a full-time basis. Throughout the term of this Agreement, the Executive will use the Executive's best efforts and due diligence to assist the Company in achieving the most profitable operation of the Company and the Company's affiliated entities consistent with developing and maintaining a quality business operation.

2.1 Specific Duties. The Executive will serve as Chief Financial Officer and Senior Vice President - Finance for the Company. The Executive will perform all of the services required to fully and faithfully execute the office and position to which the Executive is appointed and such other services as may be reasonably requested by the Executive's supervisor. During the term of this Agreement, the Executive may be nominated for election or appointed to serve as a director or officer of the Company's subsidiaries as determined in the board of directors' sole discretion.

2.2 Supervision. The services of the Executive will be requested and directed by the Chief Executive Officer, Mr. Aubrey K. McClendon.

2.3 Rules and Regulations. The Company currently has an Employment Policies Manual which addresses frequently asked questions regarding the Company. The Executive agrees to comply with the Employment Policies Manual except to the extent inconsistent with this Agreement. The Employment Policies

Manual is subject to change without notice in the sole discretion of the Company at any time.

- 2.4 Stock Investment. For each calendar year during which this Agreement is in effect, the Executive agrees to hold shares of the Company's common stock having aggregate Investment Value equal to one hundred percent (100%) of the compensation paid to the Executive under paragraphs 4.1 and 4.2 of this Agreement during such calendar year. For purposes of this section, the "Investment Value" of each share of stock will be the higher of either (a) the price paid by the Executive for such share as part of an open market purchase; or (b) the fair market value on the date of exercise for shares acquired through the exercise of employee stock options. Any shares of common stock acquired by the Executive prior to the date of this Agreement and still owned by the Executive during the term of this Agreement may be used to satisfy this requirement to acquire common stock. The Investment Value for previously acquired stock shall be calculated using the average stock price during the first six months of this Agreement.

The stock acquired or owned pursuant to this paragraph 2.4 must be held by the Executive at all times during the Executive's employment by the Company or the Company's affiliated entities. In order to administer this provision, the Executive agrees to return to the Company's Chief Executive Officer a semi-annual report of purchases and ownership in a form prepared by the Company. This paragraph will become null and void if the Company's common stock ceases to be listed on the New York Stock Exchange or on the National Association of Securities Dealers Automated Quotation System. The Company has no obligation to sell or to purchase from the Executive any of the Company's stock in connection with this paragraph 2.4 and has made no representations or warranties regarding the Company's stock, operations or financial condition.

3. Other Activities. Except for the activities (the "Permitted Activities") expressly permitted by paragraphs 3.1 and 3.2 of this Agreement, or the prior written approval of the board of directors of the Company, the Executive will not: (a) engage in business independent of the Executive's employment by the Company; (b) serve as an officer, general partner or member in any corporation, partnership, company, or firm; (c) directly or indirectly invest in, participate in or acquire an interest in any oil and gas business, including, without limitation, (i) producing oil and gas, (ii) drilling, owning or operating oil and gas leases or wells, (iii) providing services or materials to the oil and gas industry, (iv) marketing or refining oil or gas, or (v) owning any interest in any corporation, partnership, company or entity which conducts any of the foregoing activities. The limitation in this paragraph 3 will not prohibit an investment by the Executive in publicly traded securities; or the continued direct ownership and operation of oil and gas interests and leases to the extent such interests were owned by the Executive on March 1, 1995. Notwithstanding the foregoing, the Executive will be

permitted to participate in the following activities which will be deemed to be approved by the Company, if such activities are undertaken in strict compliance with this Agreement.

3.1 Company's Activities. The Executive or the Executive's designated affiliate will be permitted to acquire a working interest in all of the wells spudded by the Company or the Company's subsidiary corporations, partnerships or entities (the "Program Wells") during any Calendar Quarter (as hereafter defined) on the terms and conditions set forth herein. The Program Wells include any well spudded during such Calendar Quarter in which the Company or the Company's subsidiary corporations, partnerships or entities participate as a nonoperator.

3.1.1 Amount of Participation. On or before the date which is thirty (30) days before the first (1st) day of each Calendar Quarter, the Executive will provide notice to the compensation committee of the Company's board of directors of the Executive's intent to participate in the Program Wells during the succeeding Calendar Quarter and the approximate percentage working interest which the Executive proposes to participate with during such Calendar Quarter. The Executive's percentage working interest in the Program Wells spudded during such Calendar Quarter will be subject to approval by the disinterested members of the compensation committee of the Company's board of directors and to the limitations set forth herein (the "Approved Percentage"). The Executive's Approved Percentage working Interest participation (determined without consideration of any carried interest) in the Program Wells for any Calendar Quarter will not exceed one percent (1.0%) on an eight-eighths (8/8ths) basis. On designation of the Approved Percentage for a Calendar Quarter, the Executive will be deemed to have elected to participate in each Program Well spudded during such calendar Quarter with a working interest equal to the following applicable percentage determined on a well-by-well basis (the "Minimum Participation"): (a) the Approved Percentage for a Program Well which does not fall within clause (b) of this paragraph 3.1.1 or an Operations Well; or (b) zero percent (0%) if the combined participation in the Program Well by the Executive, Mr. Tom L. Ward and Mr. Aubrey K. McClendon with such individuals' Approved Percentage under their respective employment agreements causes the Company's working interest (determined without consideration of any carried interest) on the spud date for such Program Well to be less than twelve and one-half percent (12.5%) on an eight-eighths (8/8ths) basis. If clause (b) of this paragraph 3.1.1 prohibits the Executive's participation in a Program Well, then Messrs. Ward and McClendon will not be entitled to participate in such Program Well under their employment agreements. An "Operations Well" means a Program Well which falls within the provisions of clause (b) of this paragraph 3.1.1, but for which the

Executive's participation is deemed necessary for the Company to retain operations as determined by the disinterested members of the compensation committee of the Company's board of directors. If the Executive fails to provide notice of the Executive's intent to participate and the Executive's proposed participation prior to the specified date as provided herein, the amount of the Approved Percentage for the Calendar Quarter will be deemed to be zero (0).

3.1.2 Conditions of Participation. The Participation by the Executive in each Program Well will be on no better terms than the terms agreed to by unaffiliated third party participants in connection with the acquisition of an interest in such Program Well from the Company or its subsidiary corporations, partnerships or entities. The Approved Percentage cannot be changed during any Calendar Quarter without the prior approval of the disinterested members of the compensation committee of the Company's board of directors. Any participation by the Executive under this paragraph 3.1 is also conditioned upon the Executive's participation in each Program Well spudded during such Calendar Quarter in an amount equal to the Minimum Participation. The Executive hereby agrees to execute and deliver any documents reasonably requested by the Company and hereby appoints the Company as the Executive's agent and attorney-in-fact to execute and deliver such documents if the Executive fails or refuses to execute such documents. The Executive further agrees to pay all joint interest billings within one hundred twenty (120) days after receipt. For purposes of this Agreement, the term "Calendar Quarter" means the three (3) month periods commencing on the first (1st) day of January, April, July and October.

3.2 Other Activities. The Executive currently conducts oil and gas investment activities individually and through MJ Partners, a Texas general partnership ("MJ"). The Executive will be permitted to continue oil and gas activities in such entity, but only to the extent such activities are conducted on oil and gas leases or interests owned by the Executive or MJ as of March 1, 1993, or acquired pursuant to paragraph 3.1 of this Agreement.

4. Executive's Compensation. The Company agrees to compensate the Executive as follows:

4.1 Base Salary. A base salary (the "Base Salary"), at the initial annual rate of not less than Two Hundred Twenty Five Thousand Dollars (\$225,000.00), will be paid to the Executive in equal semi-monthly installments beginning July 15, 1997 during the term of this Agreement.



- 4.2 Bonus. In addition to the Base Salary described at paragraph 4.1 of this Agreement, the Company may periodically pay bonus compensation to the Executive. Any bonus compensation will be at the absolute discretion of the Company in such amounts and at such times as the board of directors of the Company may determine.
- 4.3 Stock Options. In addition to the compensation set forth in paragraphs 4.1 and 4.2 of this Agreement, the Executive may periodically receive grants of stock options from the Company's various stock option plans, subject to the terms and conditions thereof.
- 4.4 Benefits. The Company will provide the Executive such retirement benefits, reimbursement of reasonable expenditures for dues, travel and entertainment and such other benefits as are customarily provided by the Company and as are set forth in the Company's Employment Policies Manual. The Company will also provide the Executive the opportunity to apply for coverage under the Company's medical, life and disability plans, if any. If the Executive is accepted for coverage under such plans, the Company will provide such coverage on the same terms as is customarily provided by the Company to the plan participants as modified from time to time. The following specific benefits will also be provided to the Executive at the expense of the Company:
- 4.4.1 Vacation. The Executive will be entitled to take three (3) weeks of paid vacation each twelve months during the term of this Agreement. No additional compensation will be paid for failure to take vacation and no vacation may be carried forward from one twelve month period to another.
- 4.4.2 Membership Dues. The Company will reimburse the Executive for: (a) the monthly dues necessary to maintain a full membership in a country club in the Oklahoma City area selected by the Executive; and (b) the reasonable cost of any qualified business entertainment at such country club. All other costs, including, without implied limitation, any initiation costs, initial membership costs, personal use and business entertainment unrelated to the Company will be the sole obligation of the Executive and the Company will have no liability with respect to such amounts.
- 4.4.3 Compensation Review. The compensation of the Executive will be reviewed not less frequently than annually by the board of directors of the Company. The compensation of the Executive prescribed by paragraph 4 of this Agreement may be increased at the discretion of the Company, but may not be reduced without the prior written consent of the Executive.

4.4.4 Automobile Allowance. The Executive will receive a monthly cash allowance in the amount of One Thousand Dollars (\$1,000.00) to defer a portion of the Executive's cost of acquiring, operating and maintaining an automobile for use in the Executive's employment.

5. Term. In the absence of termination as set forth in paragraph 6 below, this Agreement will extend for a term of three (3) years commencing on July 1, 1997, and ending on June 30, 2000 (the "Expiration Date"). Unless the Company provides thirty (30) days prior written notice of nonextension to the Executive, on each June 30 during the term of this Agreement, the term will be automatically extended for one (1) additional year so that the remaining term on this Agreement will be not less than two (2) and not more than three (3) years.

6. Termination. This Agreement will continue in effect until the expiration of the term stated at paragraph 5 of this Agreement unless earlier terminated pursuant to this paragraph 6.

6.1 Termination by Company. The Company will have the following rights to terminate this Agreement:

6.1.1 Termination without Cause. The Company may terminate this Agreement without cause at any time by the service of written notice of termination to the Executive specifying an effective date of such termination not sooner than sixty (60) business days after the date of such notice (the "Termination Date"). In the event the Executive is terminated without cause, the Executive will receive as termination compensation: (a) continuation of the Base Salary provided by paragraph 4.1 during the portion of the contract period remaining after the date of the Executive's termination, but in any event, through the Expiration Date; (b) any benefits payable by operation of paragraph 4.4 of this Agreement during the portion of the contract period remaining after the date of the Executive's termination, but in any event, through the Expiration Date; and (c) any vacation pay accrued through the Termination Date. The termination compensation in (a) shall be paid only if the Executive executes the Company's standard termination agreement releasing all legally waivable claims arising from the Executive's employment.

6.1.2 Termination for Cause. The Company may terminate this Agreement for cause if the Executive: (a) misappropriates the property of the Company or commits any other act of dishonesty; (b) engages in personal misconduct which materially injures the Company; (c) willfully violates any law or regulation relating to the business of the Company which results in injury to the Company; or (d) willfully and repeatedly fails to perform the Executive's duties

hereunder. In the event this Agreement is terminated for cause, the Company will not have any obligation to provide any further payments or benefits to the Executive after the effective date of such termination.

6.1.3 Termination After Change in Control. If, during the term of this Agreement, there is a "Change of Control" and within one (1) year thereafter: (a) this Agreement expires and is not extended; or (b) the Executive is terminated other than under paragraphs 6.1.2, 6.3 or 6.4 based on adequate grounds; or (c) the Executive resigns as a result of a reassignment of duties inconsistent with the Executive's position, a reduction in the Executive's then current compensation under paragraph 4 of this Agreement, or a required relocation more than 25 miles from the Executive's then current place of employment, then the Executive will be entitled to a severance payment (in addition to any other amounts payable to the Executive under this Agreement or otherwise) in an amount equal to thirty six (36) months of Base Salary as set forth in paragraph 4.1 of this Agreement. The term "Change of Control" means any action of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A under the Securities Exchange Act of 1934 with respect to the Company including, without limitation (i) the direct or indirect acquisition by any person after the date hereof of beneficial ownership of the right to vote or securities of the Company representing the right to vote thirty five percent (35%) or more of the combined voting power of the Company's then outstanding securities having the right to vote for the election of directors, or (ii) within two years of a tender offer or exchange offer for the voting stock of the Company or as a result of a merger, consolidation, sale of assets or contested election (or any combination of the foregoing), a majority of the members of the Company's board of directors is replaced by directors who were not nominated and approved by the board of directors.

6.2 Termination by Executive. The Executive may voluntarily terminate this Agreement with or without cause by the service of written notice of such termination to the Company specifying an effective date of such termination sixty (60) days after the date of such notice, during which time Executive may use remaining accrued vacation days, or at the Company's option, be paid for such days. In the event this Agreement is terminated by the Executive, neither the Company nor the Executive will have any further obligations hereunder including, without limitation, any obligation of the Company to provide any further payments or benefits to the Executive after the effective date of such termination.

- 6.3 Incapacity of Executive. If the Executive suffers from a physical or mental condition which in the reasonable judgment of the Company's management prevents the Executive in whole or in part from performing the duties specified herein for a period of three (3) consecutive months, the Executive may be terminated. Although the termination shall be deemed as a termination with cause, any compensation payable under paragraph 4 of this Agreement will be continued through the remaining contract period, but in any event, through the Expiration Date. Notwithstanding the foregoing, the Executive's Base Salary specified in paragraph 4.1 of this Agreement shall be reduced by any benefits payable under any disability plans.
- 6.4 Death of Executive. If the Executive dies during the term of this Agreement, the Company may thereafter terminate this Agreement without compensation to the Executive's estate except: (a) the obligation to continue the Base Salary payments under paragraph 4.1 of this Agreement for twelve (12) months and (b) the benefits described in paragraph 4.4 of this Agreement accrued through the effective date of such termination.
- 6.5 Effect of Termination. The termination of this Agreement will terminate all obligations of the Executive to render services on behalf of the Company, provided that the Executive will maintain the confidentiality of all information acquired by the Executive during the term of his employment in accordance with paragraph 7 of this Agreement. Except as otherwise provided in paragraph 6 of this Agreement, no accrued bonus, severance pay or other form of compensation will be payable by the Company to the Executive by reason of the termination of this Agreement. All keys, entry cards, credit cards, files, records, financial information, furniture, furnishings, equipment, supplies and other items relating to the Company will remain the property of the Company. The Executive will have the right to retain and remove all personal property and effects which are owned by the Executive and located in the offices of the Company. All such personal items will be removed from such offices no later than two (2) days after the effective date of termination, and the Company is hereby authorized to discard any items remaining and to reassign the Executive's office space after such date. Prior to the effective date of termination, the Executive will render such services to the Company as might be reasonably required to provide for the orderly termination of the Executive's employment.

7. Confidentiality. The Executive recognizes that the nature of the Executive's services are such that the Executive will have access to information which constitutes trade secrets, is of a confidential nature, is of great value to the Company or is the foundation on which the business of the Company is predicated. The Executive agrees not to disclose to any person other than the Company's employees or the Company's legal counsel nor use for any purpose, other than the performance of this Agreement, any confidential information

("Confidential Information"). Confidential Information includes data or material (regardless of form) which is: (a) a trade secret; (b) provided, disclosed or delivered to Executive by the Company, any officer, director, employee, agent, attorney, accountant, consultant, or other person or entity employed by the Company in any capacity, any customer, borrower or business associate of the Company or any public authority having jurisdiction over the Company of any business activity conducted by the Company; or (c) produced, developed, obtained or prepared by or on behalf of Executive or the Company (whether or not such information was developed in the performance of this Agreement) with respect to the Company or any assets oil and gas prospects, business activities, officers, directors, employees, borrowers or customers of the foregoing. However, Confidential Information shall not include any information, data or material which at the time of disclosure or use was generally available to the public other than by a breach of this Agreement, was available to the party to whom disclosed on a non-confidential basis by disclosure or access provided by the Company or a third party, or was otherwise developed or obtained independently by the person to whom disclosed without a breach of this Agreement. On request by the Company, the Company will be entitled to a copy of any Confidential Information in the possession of the Executive. The Executive also agrees that the provisions of this paragraph 7 will survive the termination, expiration or cancellation of this Agreement for a period of five (5) years. The Executive will deliver to the Company all originals and copies of the documents or materials containing Confidential Information. For purposes of paragraphs 7, 8, and 9 of this Agreement, the Company expressly includes any of the Company's affiliated corporations, partnerships or entities.

8. Noncompetition. For a period of twelve (12) months after Executive is no longer employed by the Company as a result of either the resignation by the Executive pursuant to paragraph 6.2 above, or Termination for Cause pursuant to paragraph 6.1.2 above, Executive will not: (a) acquire, attempt to acquire or aid another in the acquisition or attempted acquisition of an interest in oil and gas assets, oil and gas production, oil and gas leases, mineral interests, oil and gas wells or other such oil and gas exploration, development or production activities within five (5) miles of any operations or ownership interests of the Company or its affiliated corporations, partnerships or entities, provided, however, this provision shall not apply to acquisitions within said five (5) mile radius of assets or activities of a successor entity resulting from a "Change in Control" as described in paragraph 6.1.3., which assets were owned or activities were being conducted (1) prior to the date of such Change in Control, or (2) after such Change in Control but for which the Executive had no material responsibility; and; (b) for the Executive's own account or for the benefit of another party solicit, induce, entice or attempt to entice any employee, contractor, customer, vendor or subcontractor to terminate or breach any relationship with the Company or the Company's affiliates. The Executive further agrees that the Executive will not circumvent or attempt to circumvent the foregoing agreements by any future arrangement or through the actions of a third party.

9. Proprietary Matters. The Executive expressly understands and agrees that any and all improvements, inventions, discoveries, processes or know-how that are generated or conceived by the Executive during the term of this Agreement, whether generated or

conceived during the Executive's regular working hours or otherwise, will be the sole and exclusive property of the Company. Whenever requested by the Company (either during the term of this Agreement or thereafter), the Executive will assign or execute any and all applications, assignments and or other instruments and do all things which the Company deems necessary or appropriate in order to permit the Company to: (a) assign and convey or otherwise make available to the Company the sole and exclusive right, title, and interest in and to said improvements, inventions, discoveries, processes, know-how, applications, patents, copyrights, trade names or trademarks; or (b) apply for, obtain, maintain, enforce and defend patents, copyrights, trade names, or trademarks of the United States or of foreign countries for said improvements, inventions, discoveries, processes or know-how. However, the improvements, inventions, discoveries, processes or know-how generated or conceived by the Executive and referred to above (except as they may be included in the patents, copyrights or registered trade names or trademarks of the Company, or corporations, partnerships or other entities which may be affiliated with the Company) shall not be exclusive property of the Company at any time after having been disclosed or revealed or have otherwise become available to the public or to a third party on a non-confidential basis other than by a breach of this Agreement, or after they have been independently developed or discussed without a breach of this Agreement by a third party who has no obligation to the Company or its affiliates.

10. Arbitration. The parties will attempt to promptly resolve any dispute or controversy arising out of or relating to this Agreement or termination of the Executive by the Company. Any negotiations pursuant to this paragraph 10 are confidential and will be treated as compromise and settlement negotiations for all purposes. If the parties are unable to reach a settlement amicably, the dispute will be submitted to binding arbitration before a single arbitrator in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association. The arbitrator will be instructed and empowered to take reasonable steps to expedite the arbitration and the arbitrator's judgment will be final and binding upon the parties subject solely to challenge on the grounds of fraud or gross misconduct. Except for damages arising out of a breach of paragraphs 7, 8 or 9 of this Agreement, the arbitrator is not empowered to award total damages (including compensatory damages) which exceed 300% of compensatory damages and each party hereby irrevocably waives any damages in excess of that amount. The arbitration will be held in Oklahoma County, Oklahoma. Judgment upon any verdict in arbitration may be entered in any court of competent jurisdiction and the parties hereby consent to the jurisdiction of, and proper venue in, the federal and state courts located in Oklahoma County, Oklahoma. Each party will bear its own costs in connection with the arbitration and the costs of the arbitrator will be borne by the party who the arbitrator determines did not prevail in the matter. Unless otherwise expressly set forth in this Agreement, the procedures specified in this paragraph 10 will be the sole and exclusive procedures for the resolution of disputes and controversies between the parties arising out of or relating to this Agreement. Notwithstanding the foregoing, a party may seek a preliminary injunction or other provisional judicial relief if in such party's judgment such action is necessary to avoid irreparable damage or to preserve the status quo.

## 11. Miscellaneous. The parties further agree as follows:

- 11.1 Time. Time is of the essence of each provision of this Agreement.
- 11.2 Notices. Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement will be in writing and will be deemed to have been given when delivered personally or by telefacsimile to the party designated to receive such notice, or on the date following the day sent by overnight courier, or on the third (3rd) business day after the same is sent by certified mail, postage and charges prepaid, directed to the following address or to such other or additional addresses as any party might designate by written notice to the other party:
- To the Company: Chesapeake Energy Corporation  
Post Office Box 18496  
Oklahoma City, OK 73154-0496  
Attn: Aubrey K. McClendon
- To the Executive: Mr. Marcus C. Rowland  
15000 Wilson Rd.  
Edmond, OK 73013
- 11.3 Assignment. Neither this Agreement nor any of the parties' rights or obligations hereunder can be transferred or assigned without the prior written consent of the other parties to this Agreement.
- 11.4 Construction. If any provision of this Agreement or the application thereof to any person or circumstances is determined, to any extent, to be invalid or unenforceable, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which the same is held invalid or unenforceable, will not be affected thereby, and each term and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law. This Agreement is intended to be interpreted, construed and enforced in accordance with the laws of the State of Oklahoma and any litigation relating to this Agreement will be conducted in a court of competent jurisdiction sitting in Oklahoma County, Oklahoma.
- 11.5 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter herein contained, and no modification hereof will be effective unless made by a supplemental written agreement executed by all of the parties hereto.
- 11.6 Binding Effect. This Agreement will be binding on the parties and their respective successors, legal representatives and permitted assigns. In the

event of a merger, consolidation, combination, dissolution or liquidation of the Company, the performance of this Agreement will be assumed by any entity which succeeds to or is transferred the business of the Company as a result thereof.

11.7 Attorneys' Fees. If any party institutes an action or proceeding against any other party relating to the provisions of this Agreement or any default hereunder, the unsuccessful party to such action or proceeding will reimburse the successful party therein for the reasonable expenses of attorneys' fees and disbursements and litigation expenses incurred by the successful party.

11.8 Supercession. On execution of this Agreement by the Company and the Executive, the relationship between the Company and the Executive will be bound by the terms of this Agreement and the Employment Policies Manual and not by any other agreements or otherwise. In the event of a conflict between the Employment Policies Manual and this Agreement, this Agreement will control in all respects.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective the date first above written.

CHESAPEAKE ENERGY CORPORATION, an Oklahoma corporation

By: /s/ AUBREY K. McCLENDON  
-----  
Aubrey K. McClendon, Chief Executive Officer  
(the "Company")

By: /s/ MARCUS C. ROWLAND  
-----  
Marcus C. Rowland, Individually  
(the "Executive")