Chesapeake Overhauls Board

By DANIEL GILBERT, JOANN S. LUBLIN and RUSSELL GOLD, *The Wall St Journal*

Chesapeake Energy Corp. chose former Conoco Inc. Chief Executive Archie W. Dunham to head its retooled board of directors, as the embattled natural-gas giant made good on a pledge to change its leadership in response to intense shareholder pressure.

Chesapeake Energy appointed Archie W. Dunham, the former chairman of ConocoPhillips, as its new independent chairman, along with naming four new independent directors. Liam Denning reports on Markets Hub. Photo: AP.

In selecting Mr. Dunham, Chesapeake is handing the reins to a seasoned energy executive and a veteran corporate director as it weathers a liquidity crisis and governance controversies. Mr. Dunham was also born and raised in Oklahoma, ensuring that Chesapeake, which has emerged as a major business and civic force in Oklahoma City, will continue to be run by natives of the state.

Mr. Dunham, 73, capped a long career in energy as chief executive of Conoco Inc., which he steered into a $15 billion merger with Phillips Petroleum Co. in 2002, and served as chairman of ConocoPhillips until 2004.

Some analysts noted that Mr. Dunham's age raises questions about whether he intends to stay beyond Chesapeake's short-term challenges, including trimming its $13.1 billion of long-term debt in the face of dwindling revenues from the lowest natural-gas prices in a decade.

Chesapeake co-founder and Chief Executive Aubrey McClendon, who had served as chairman, will remain CEO and continue to serve on the board.

"I was attracted by the clear mandate to provide strong oversight," Mr. Dunham said in a statement.

Mr. Dunham was one of five new directors named to the board Thursday. Three directors were proposed by Chesapeake's largest shareholder, Southeastern Asset Management Inc., and a fourth was named by Carl Icahn, the activist investor. Combined, Southeastern and Mr. Icahn hold more than 20% of the company's shares.

Troubled Times at Chesapeake

See a timeline of Chesapeake's business troubles.

View Interactive

- **More photos and interactive graphics**

The new slate alters the board's balance of power, with the majority selected or approved by Southeastern and Mr. Icahn. Both believe Chesapeake's shares are undervalued and are pushing the company to curb its longstanding practice of spending beyond its cash flow.

"I think they've got some really good assets," Bob G. Alexander, a new director sought out by Mr. Icahn who was proposed by Southeastern, said in an interview Thursday. "The thing I think they need to do is limit drilling to how much cash they have available. I don't think the company needs to take on any more debt."

The 78-year-old Mr. Alexander, a native Oklahoman, founded Alexander Energy Corp. and sold it to National Energy Group, which he later took over with Mr. Icahn as an investor. They sold National Energy in 2006 for $1.5 billion to SandRidge Energy Inc., which is run by Tom Ward, who co-founded Chesapeake with Mr. McClendon.

"I always had the opinion, even when I had my own company, that everything's for sale," he said, adding that Chesapeake's growth prospects are too good to put it up for sale in the near term.

Mr. Dunham was selected by Chesapeake's board prior to the four other changes and endorsed by Southeastern and Mr. Icahn, according to a person familiar with the matter. Mr. McClendon didn't play a role in the selection, the person said.

Recent Developments

- **Directors Voted Off the Board** 6/8/12

- **Chesapeake Faces Costly Cuts** 6/7/12
- **Directors Brace for Defeat** 6/7/12
- **Chesapeake Revamp Limits CEO** 6/4/12

More on Chesapeake

- **Heard on the Street:** New Chairman Must Check His Chief
- **Chesapeake's Hometown Woes**
- **Aubrey McClendon, a Career in the Spotlight**
- **Pressure Mounts at Chesapeake**
- **Chesapeake Draws Shareholder Ire**
- **Board Turns on Chesapeake's CEO**

Change at the Top

Chesapeake's new directors:

- **Chairman Archie W. Dunham**, 73, Conoco CEO 1996- 2002; ConocoPhillips chairman 2002-2004
- **Bob G. Alexander**, 78, founder Alexander Energy, now part of SandRidge Energy
- **Vincent J. Intrieri**, 55, senior managing director, Icahn Capital.
- **R. Brad Martin**, 60, former Saks chairman and CEO
- **Frederic M. Poses**, 69, CEO of privately held manufacturer Ascend Performance Materials

Source: WSJ Research

Robert W. Goldman, Mr. Dunham's chief financial officer at Conoco, said his former boss "knows how to handle big challenges."

At Conoco, Mr. Dunham faced a pile of debt and spending obligations afterDuPont Co. spun it off in a 1998 public offering. "Archie knows how to manage through that," Mr. Goldman said, noting his focus on controlling costs.

The revamped board is intended to moderate the influence of Mr. McClendon, 52, who in recent years led Chesapeake to acquire more land and drill more wells than any company in the country. The strategy built the company into a natural-gas powerhouse but also saddled it with debt and left it vulnerable to sinking prices for its principal product.

Chesapeake is seeking to sell up to $14 billion in assets this year to close the gap between its planned expenditures and the cash it generates from operations. So far it said it has secured about half that amount.

Mr. McClendon said in a statement Thursday that he looked forward to working with the new directors to "deliver to our shareholders the substantial net asset value we have created in the past seven years."

Some governance experts who previously criticized Chesapeake's management lauded its choice of Mr. Dunham.


Reuters

A drilling rig owned by Chesapeake, which faces a cash crunch.

As a former CEO, Mr. Dunham "has the backbone to act appropriately" in running Chesapeake's board, said Charles Elson, head of the Weinberg Center for Corporate Governance at the University of Delaware's business school. "He will be effective at distancing the board from the CEO."

Chesapeake's board had been criticized by some shareholders and analysts for their high pay and for being too deferential to Mr. McClendon.

The departing directors include two Oklahoma political heavyweights, former Gov. Frank Keating and former U.S. Sen. Don Nickles, as well as Kathleen Eisbrenner, an energy executive who joined the board in December 2010.

Holdover directors include Merrill A. "Pete" Miller, CEO of National Oilwell Varco Inc., and Louis A. Simpson, a former chief executive of insurer Geico Corp., who joined the board in 2011 at Southeastern's request.

V. Burns Hargis, president of Oklahoma State University, will also remain on the board despite offering to resign earlier this month after receiving 26% of votes cast at Chesapeake's the annual shareholder meeting.

Mr. Hargis, who chairs the audit committee, will remain at least until the completion of a pending board review of Mr. McClendon's financial ties with companies that do business with Chesapeake. That controversy has weighed on the company's stock since April. Chesapeake shares fell 4.8% to $18.12 Thursday amid a broader selloff prompted by weak U.S. and international economic reports.

Write to Daniel Gilbert at daniel.gilbert@wsj.com, Joann S. Lublin atjoann.lublin@wsj.com and Russell Gold at russell.gold@wsj.com

A version of this article appeared June 22, 2012, on page B3 in the U.S. edition of The Wall Street Journal, with the headline: Chesapeake Overhauls Board.