INTRODUCTION

Institutional investors pay considerable attention to the quality of a company’s governance. In theory, a well-governed company is one whose managers and directors take into account the best interest of the corporation and its shareholders when making strategic, operating, and financing decisions, thereby maximizing the probability of long-term value creation and minimizing or reducing risk. Conversely, a poorly governed company is one whose managers make poor decisions or routinely put their own interests above those of shareholders by placing greater emphasis on personal gain (through wealth extraction, job security, media attention, or the misuse of corporate assets) than the enhancement of corporate value. An experienced and engaged board of directors is an important safeguard against poor decision making and self-interested behavior.

The challenge for many shareholders is that it is often difficult for outside observers to reliably gauge governance quality. Oftentimes, poor governance manifests itself only after decisions have been made and their outcomes known. Even so, shareholders have to determine whether problems are isolated incidents or are systemic in nature, and whether they can be remedied through straightforward fixes (such as a change in management or the board) or require wholesale changes to corporate culture and operating principles.

MASSEY ENERGY: LAX COMPLIANCE

On April 5, 2010, a massive explosion in the Upper Big Branch mine in West Virginia killed 29 miners and injured 2 others. The mine was owned by Massey Energy Company and operated by its subsidiary Performance Coal Company.

Massey Energy had a history of mining accidents, although none of this magnitude. In 2006, a fire in one of the company’s conveyor-belt lines in a Logan County, West Virginia, mine resulted in two deaths. The following year, a miner died in Kanawha County when the conveyor belt he was repairing accidentally started, knocking him 39 feet to his death. In both cases, regulators found faulty equipment and inadequate maintenance to be contributing factors. Massey also had a history of legal and regulatory violations, including a $20 million settlement with the Environmental Protection Agency that the company polluted rivers and streams in West Virginia and Kentucky with excess discharges, a $50 million judgment (later reduced) that the company illegally interfered with the business of a competitor by buying coal reserves surrounding the company’s mining property to make it a less attractive acquisition target, and a $220 million judgment that Massey reneged on a long-term coal supply contract with a local steel-making company. The company’s long-time chairman and CEO, Don Blankenship, garnered media attention when it came to light that he was personal friends with the chief justice of the West Virginia Supreme Court of Appeals and contributed $3 million to the election campaign of another judge on that court during a time when the company had cases pending before it (see Exhibit 1).

The Upper Big Branch accident, however, exceeded all of these in scale and significance. The company and its regulator—the Mine Safety and Health Administrator (MSHA)—launched separate investigations to determine the cause. The report issued by the company’s investigators concluded that the Upper Big Branch explosion was due to an unpreventable surge of natural gas. The final report by the MSHA flatly contradicted this and concluded that the explosion was due to a buildup of coal dust in the mine’s passageways that was “entirely preventable.” The regulator accused the company of “systematic, intentional, and aggressive efforts” to avoid compliance with regulatory standards (see Exhibit 2) and cited nine “flagrant” violations that contributed to the explosion, including:

• Providing advance notice to miners of regulatory inspections
• Failing to conduct examinations to identify hazards
• Allowing hazardous levels of loose coal and coal dust to accumulate in mine shafts
• Failing to adequately apply rock dust to reduce the risk of explosion
Governance Aches and Pains

Blankenship resigned, and Alpha Natural Resources announced that it would acquire Massey Energy for $7.1 billion. The company set aside $200 million to pay for civil and criminal penalties related to the accident. The mine’s superintendent, security chief, and president of an operating subsidiary were convicted and sent to prison for obstruction of justice and preventing regulators from properly conducting examinations. Blankenship was indicted on federal charges that he conspired to violate mine safety laws. During the trial, prosecutors cited a memo stating that employees did not believe management was serious about regulatory compliance: “We are told to run, run, run until we get caught; when we get caught, then we will fix it.” 4 Blankenship was found guilty of a misdemeanor charge and sentenced to one year in prison but found not guilty on felony charges that would have carried a 30-year sentence. He was believed to be the first CEO of a large U.S. corporation to be sent to prison for workplace safety violations following an industrial accident.

**NABORS INDUSTRIES: EXTREME COMPENSATION**

In 1987, Eugene Isenberg was recruited as chairman and CEO of oilfield services company Anglo Energy of Houston, Texas, which had recently emerged from bankruptcy protection but still suffered from heavy debt loads and years of under-investment following an extended period of low oil prices.5 Isenberg’s employment contract gave him considerable incentive to improve the company’s fortunes: In addition to sizeable stock option awards (a grant of more than 3 million shares at $1 per share), Isenberg was entitled to an annual bonus equal to 10 percent of the company’s operating cash flow in excess of 10 percent of average shareholders’ equity during the year.6 Isenberg also took a direct ownership stake in the company, purchasing $0.5 million in equity and $8.25 million principle amount in notes.

Isenberg pursued an aggressive financial and operating strategy to turn around the company, which changed its name to Nabors Industries. He struck a prepackaged bankruptcy deal with creditors, resulting in a debt-for-equity swap that relieved the company of its heavy interest obligations. He initiated an extensive campaign to buy assets from competitors, often at distressed prices. He redeployed idled drilling rigs from an oversupplied U.S. market to international areas where drilling services were in demand. By the early 1990s, the turnaround plan was a success, and the company’s stock price, which had traded around $1 per share, increased six-fold (see Exhibit 3). Isenberg, who often elected to receive his annual bonus in equity rather than cash, was a significant shareholder owning 12 percent of the company.

In time, Isenberg’s employment agreement with the company evolved. When his five-year contract was renewed in 1992, the formula for his cash bonus was reduced to 7 percent of cash flow in excess of 15 percent; however, the size of the company was much larger.7 Later, his contract was converted to an evergreen agreement. He was also granted protection in case of a change in control or termination without cause.

Isenberg also began to receive stock option awards with more generous terms. A 1994 grant contained performance-accelerated vesting features that allowed for immediate vesting if the company’s common stock price traded above $9.375 for 20 consecutive trading days—approximately 40 percent higher than the grant-date price. Exercised options would be replaced with an equal number of new options at the prevailing price (known as a “reloading”).8 Future option grants contained similar features. Between 1993 and 2005, Isenberg exercised options on 16.8 million shares, realizing over $400 million in profit. Many of these were replaced, and he continued to hold 9 million shares valued at approximately $275 million.9

In time, shareholders pushed back on the compensation practices of Nabors. A shareholder resolution at the company’s 2007 annual meeting called for the adoption of a say-on-pay policy, giving shareholders the right to approve Isenberg’s compensation. A 2008 resolution called for the elimination of tax gross ups in the case of termination following a change in control. A 2009 resolution called for the company to more closely tie pay with performance. Shareholders challenged an employment contract provision that promised a cash payment of $100 million (reduced from $263.6 million) in the event of “death, disability, [or] termination without cause.”10 They also challenged Isenberg’s frequent use of corporate aircraft to fly to Martha’s Vineyard and Palm Beach, Florida where he owned homes and the company maintained offices.

As the company’s operating and stock price began to suffer, investors demonstrated their frustration by voting against the company’s pay program and against the reelection of members of the compensation committee (see Exhibit 4). Isenberg stepped down as CEO in 2011, retired from the board in 2013, and passed away in 2014.

**YAHOO!: REVOLVING LEADERSHIP**

For many years, Yahoo failed to keep pace with its main competitor
Google in the field of online search and advertising. After failing
to execute on a major upgrade to the company’s advertising sales
system in 2007, Chairman and CEO Terry Semel resigned. His
leadership role was divided, with cofounder Jerry Yang becoming
CEO and Roy Bostock appointed as nonexecutive chairman.
Yang, who had maintained involvement in the company as an
executive and board member, laid out plans to increase investment
in innovation and generate more revenue from the company’s
installed user base, promising to “execute with speed, clarity, and
discipline.”

Six months into his tenure, Microsoft made an unsolicited
offer to acquire Yahoo for $44.6 billion in cash and stock—a 62
percent premium over the company’s recent stock price. Yahoo
rejected the offer as undervaluing the company and made a series
of moves to thwart a takeover. Among them, it implemented what
is known as a “tin parachute”: a provision that allowed every
employee in the company who was terminated without cause
during the two years following a change in control to receive a
lump-sum payout equal to their annual salary and the immediate
vesting of all unvested restricted shares and options. The provision
was intended to make a hostile takeover prohibitively expensive.
Microsoft withdrew its bid and the company’s stock price fell (see
Exhibit 5).

Shareholders were upset. According to one investor, “I’m extremely disappointed in Jerry Yang. I think he overplayed a
weak hand. And I’m even more disappointed in the independent
directors who were not responsive to the needs of independent
shareholders.” Activist investor Carl Icahn took a stake in the
company with the intention of restarting merger talks with
Microsoft but failed: “I am amazed at the lengths that Jerry Yang
and the board went to entrench themselves in this situation.”

At the company’s annual meeting, Yang received only 66 percent
support; Chairman Roy Bostock 60 percent. Following the vote,
Yang resigned as CEO.

His replacement, Carol Bartz, former CEO of Autodesk, was
hard-driving with a reputation for hands-on management and
the occasional use of strong language. To Bostock, she was “the
exact combination of seasoned technology executive and savvy
leader that the board was looking for.” Two-and-a-half years
later, however, she too resigned under pressure from the board
for failing to meet performance targets. Bartz was not pleased,
particularly with the manner of her dismissal, which came over
the phone rather than in a face-to-face meeting. She told Fortune,
“These people f---ed me over,” adding, “The board was so spooked
by being cast as the worst board in the country. Now they are
trying to show that they’re not the doofuses that they are.”

Yahoo hired former PayPal executive Scott Thompson to
replace Bartz. Less than five months into his tenure, it was
discovered that Thompson misrepresented his educational
credentials on his resume (claiming a degree in computer science
rather than accounting), and he resigned.

Marissa Mayer, former Google executive, became the
company’s fifth CEO in six years. Mayer shifted Yahoo’s focus
to emerging growth areas, such as mobile technology, video,
native advertising, and social media (categories that she dubbed
“MaVeNS”), spending more than $2.3 billion to purchase 50
startups. She also sought to monetize Yahoo’s 24 percent stake
in Chinese e-commerce company Alibaba, in which the company
initially invested in 2005. Following Alibaba’s initial public
offering, Yahoo’s holdings were valued at $40 billion pretax,
an amount equal to Yahoo’s entire market capitalization at the
time. Mayer planned to distribute Alibaba shares directly to
Yahoo investors. Yahoo’s share price climbed to a 10-year high
in anticipation. When the Internal Revenue Service declined
to give assurance that the spinoff would be treated as tax free,
the stock reversed. With signs of the company’s growth plan
sputtering, Yahoo drew the attention of activist investors. The
board established an independent committee to explore strategic
alternatives. The committee did not include Mayer. Frustrated
with the pace of change, activist hedge fund Starboard Value filed
a proxy to remove the entire Yahoo board and pave the way for a
sale of the company.

CHESAPEAKE ENERGY: AGGRESSIVE LEADERSHIP

Chesapeake Energy was founded in 1989 by Aubrey McClendon.
For nearly 20 years, the company grew aggressively through
land acquisition and exploration, becoming the second-largest
producer of natural gas in the United States in terms of volume
(after ExxonMobil) and the largest in terms of rigs in active use.
The company held land leases in Texas, Oklahoma, Louisiana,
Arkansas, Pennsylvania, and Ohio.

In the 2000s, Chesapeake benefited from generally tight supply,
locking in high energy prices through hedging instruments and
using the resulting cash flow to finance large capital investment.
By 2008, the market changed. Looming recession and the
advancement of hydraulic fracturing technology—which greatly
reduced the cost of production—created an oversupply, and
prices fell. Chesapeake scrambled to sell assets, and its stock price
plummeted (see Exhibit 6).

McClendon got caught in the reversal. In October 2008, the
company disclosed that he sold 31.5 million shares, or 94 percent
of his 5.8 percent stake in the company, to meet a margin call. The
shares, which had been worth $2.3 billion at their peak, were sold
for $570 million. Following the sale, McClendon held only $32
million in Chesapeake shares. “I got caught up in a wildfire that was bigger than I was,” he said. “I’m fortunate that I have other resources and I’ll be fine.”

Some of those resources came in the form of corporate largesse. Following his margin sale, the board of directors signed McClendon to a new five-year contract, even though he had signed a five-year contract the previous year. As part of the deal, McClendon received a $75 million bonus. The company also purchased his collection of antique maps for $12 million (see Exhibit 7). Shareholders were displeased. According to one, “I have never seen a more shameful document than the Chesapeake proxy statement. If I could reduce it to one page, I would frame it and hang it on my office wall as a near perfect illustration of the complete collapse of appropriate corporate governance.”

McClendon moved to shore up the company’s finances. He announced a plan to raise $12 billion through the sale of assets to reduce debt and return the company to an investment-grade credit rating. Chesapeake sold portions of its holdings in the Marcellus shale ($3.4 billion), Fayetteville shale ($4.75 billion), and Mississippi Lime joint venture ($1 billion). Shareholder support for McClendon and the board continued to decline. In 2011, McClendon was reelected as chairman with 78 percent of the vote, down from 96 percent in 2008. The company’s advisory say-on-pay vote received only 58 percent support.

The following year, it was discovered that McClendon had taken $1.1 billion in third-party loans to acquire personal stakes in wells drilled by Chesapeake. The program, known as the Founder Well Participation Program, had been approved by shareholders in 2005 and allowed McClendon to participate in oil and gas discovery by purchasing a 2.5 percent stake in wells that Chesapeake drilled. The program prohibited McClendon from cherry-picking the most promising wells and was subject to review by the compensation committee of the board (see Exhibit 8). Still, shareholders were unaware of the size of McClendon’s investment; they were also unaware that the financing came in the form of loans from a private equity firm with which Chesapeake was simultaneously negotiating to sell land and lease rights.

The board moved to curtail the program. At the company’s annual meeting, the two directors standing for reelection received 26 percent and 27 percent of votes. It was the lowest support for directors of an S&P 500 company in the previous five years. Shareholders also approved a proxy access measure that would allow investors to directly nominate candidates to the board. McClendon stepped down as chairman, and the following year he resigned as CEO. In 2016, he was indicted by a federal grand jury for conspiring to manipulate the price of natural gas leases in Oklahoma between 2007 and 2012, when still at Chesapeake. The case never made it to trial; McClendon died in a car accident the day after the indictment.

**WHY THIS MATTERS**

1. Governance problems take many forms. Sometimes, they involve a large-scale incident; other times, multiple or smaller events over a long period of time. The problem might be confined to one aspect of the firm, or it might be systemic across the whole organization. How can shareholders diagnose the issues facing a company to determine whether these observations are the result of bad corporate governance that needs to be fixed or simply the outcomes of routine business decisions?

2. Many of the situations described in this Closer Look involve the CEO and the board. When is the CEO the root cause of the problem because of his or her decisions, actions, and behavior, and when is the board the root cause because of failed oversight duties? Should shareholders spend more time assessing whether the board members are really “independent” from the CEO? How can shareholders tell if the board is “captured” by the CEO?

3. The case of Massey Energy involved massive cultural as well as procedural failure. How can shareholders gauge the culture of an organization to determine its commitment to sound and responsible business? What “red flags” might they see if management is cutting corners?

4. Isenberg’s tenure at Nabors Industries started very successfully but gradually the company’s performance deteriorated and its compensation practices became more extreme. How can shareholders tell when a company begins to “drift”? How much leeway should they give to a successful CEO?

5. The troubles at Yahoo spanned multiple CEOs; the troubles at Chesapeake one. The former situation raises questions about succession planning; the latter about performance evaluation. How can shareholders diagnose whether boards are capably handing their responsibility to select and oversee management? How can they determine whether the “right” CEO is in charge?
Governance Aches and Pains

Kris Maher, "Ex-Coal Boss’s Secret Recordings Take Center Stage as Trial Opens," The Wall Street Journal (October 8, 2015).

Information in this section adapted in part from David F. Larcker and Brian Tayan, "Executive Compensation at Nabors Industries: Too Much, Too Little, or Just Right?" (Parts A and B), Stanford GSB Case No. CG-5 (February 10, 2007; August 15, 2011).


In 2000, the terms were changed again to 6 percent of cash flow above 15 percent of average shareholders’ equity.


In 2007, an internal review uncovered four occasions between 1991 and 1997 in which the company misdated stock option grants to senior executives, including Isenberg. Nabors recorded a $51.6 million charge; however, it found no evidence of fraud or intentional wrongdoing. See Nabors Industries, Form 10-K filed March 1, 2007.

When Isenberg announced he would step down as CEO of the company in 2011, the company initially attempted to pay Isenberg this $100 million payment, even though he remained chairman of the board. In 2012, he agreed to waive the payment. Nabors Industries, DEF-14A filed April 30, 2009; Form 8-K filed February 6, 2012.

Cited in Kevin J. Delaney and Joann S. Lublin, "Can ’Chief Yahoo’ Rise to Challenges as Yahoo’s Chief?" The Wall Street Journal (June 20, 2007).


Gregory Zuckerman and Jessica E. Vascellaro, "Icahn Aims to Oust Yahoo! CEO Yang If Bid for Board Control Succeeds," The Wall Street Journal (June 4, 2008).


Patricia Sellers, "Carol Bartz Exclusive: Yahoo ‘F---ed Me Over,” Fortune (September 8, 2011).

Yahoo!, Form DFAN-14 filed March 24, 2016.


Chesapeake Energy, Form DEF-14A filed April 30, 2009.


Chesapeake Energy, Form 8-K filed June 6, 2011.

Anna Driver and Brian Grow, "Chesapeake CEO Took $1.1 Billion in Shrouded Personal Loans," Reuters (April 18, 2012).


See also, David F. Larcker and Brian Tayan, "Leadership Challenges at Hewlett-Packard: Through the Looking Glass," Stanford Closer Look Series (October 2011).

David Larcker is Director of the Corporate Governance Research Initiative at the Stanford Graduate School of Business and senior faculty member at the Rock Center for Corporate Governance at Stanford University. Brian Tayan is a researcher with Stanford’s Corporate Governance Research Initiative. They are coauthors of the books A Real Look at Real World Corporate Governance and Corporate Governance Matters. The authors would like to thank Michelle E. Gutman for research assistance in the preparation of these materials.

The Stanford Closer Look Series is a collection of short case studies that explore topics, issues, and controversies in corporate governance and leadership. The Closer Look Series is published by the Corporate Governance Research Initiative at the Stanford Graduate School of Business and the Rock Center for Corporate Governance at Stanford University. For more information, visit: http://www.gsb.stanford.edu/cgri-research.

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1. Massey ordered to pay $50 million for illegally interfering with the business of a competitor (2002).
2. Two miners die in Logan County fire.
3. Massey ordered to pay $220 million for breaking a long-term coal supply contract.
4. Miner dies in Kanawha County accident.
5. Massey agrees to $20 million settlement with Environmental Protection Agency over pollution.
6. Massey CEO friendship with and donation to two State Supreme Court of Appeals judges is reported in the media.
7. Twenty-nine miners die, two injured in Upper Big Branch explosion.
8. Massey CEO resigns.
9. Alpha Natural Resources agrees to acquire Massey Energy for $7.1 billion.
10. Former Massey employees guilty of obstruction of justice (2012, 2013); former Massey CEO guilty of misdemeanor in conjunction with Upper Big Branch explosion and sentenced to prison (2016).

Source: Factiva. Center for Research in Securities Prices (University of Chicago).
EXHIBIT 2 — MASSEY ENERGY: MSHA ACCIDENT REPORT FINDINGS

PERFORMANCE COAL COMPANY/MASSEY’S MANAGEMENT PRACTICES THAT LED TO THE EXPLOSION

PCC/Massey failed to perform required mine examinations adequately and remedy known hazards and violations of law.

MSHA regulations require mine operators to examine certain areas of the mine on a weekly basis, as well as before and during each shift, to identify hazardous conditions. MSHA’s accident investigation found that PCC/Massey regularly failed to examine the mine properly for hazards putting miners at risk and directly contributing to the April 5 explosion. At UBB [Upper Big Branch], PCC/Massey examiners often did not travel to areas they were required to inspect or, in some cases, travelled to the areas but did not perform the required inspections and measurements.

PCC/Massey kept two sets of books, thus concealing hazardous conditions.

During the course of the investigation, MSHA discovered that PCC/Massey kept two sets of books at UBB: one set of production and maintenance books for internal use only, and the required examination books that, under the Mine Act, are open to review by MSHA and miners. … PCC/Massey often recorded hazards in its internal production and maintenance books, but failed to record the same hazards in the required examination book provided to enforcement personnel to review.

PCC/Massey intimidated miners to prevent MSHA from receiving evidence of safety and health violations and hazards.

Testimony revealed that UBB’s miners were intimidated to prevent them from exercising their whistleblower rights. Production delays to resolve safety-related issues often were met by UBB officials with threats of retaliation and disciplinary actions. … MSHA did not receive a single safety or health complaint relating to underground conditions at UBB for approximately four years preceding the explosion even though MSHA offers a toll-free hotline for miners to make anonymous safety and health complaints.

PCC/Massey failed to provide adequate training for workers.

Records and testimony indicate that PCC/Massey inadequately trained their examiners, foremen and miners in mine health and safety. It failed to provide experienced miner training, especially in the area of hazard recognition; failed to provide task training to those performing new job tasks; and failed to provide required annual refresher training.

PCC/Massey established a regular practice of giving advance notice of inspections to hide violations and hazards from enforcement personnel.

Under the Mine Act, it is illegal for mine operators’ employees to give advance notice of an inspection by MSHA enforcement personnel. Despite this statutory prohibition, UBB miners testified that PCC/Massey mine personnel on the surface routinely notified them prior to the arrival of enforcement personnel. Miners and others testified they were instructed by upper management to alert miners underground of the arrival of enforcement personnel so hazardous conditions could be concealed.

1. Isenberg is recruited to Anglo Energy; enters profit-sharing agreement.
2. Company changes name to Nabors; Isenberg begins turnaround plan.
3. Renewal of five-year contract; terms of profit-sharing agreement changed.
4. Isenberg begins to receive stock options with performance-accelerated vesting and reload features.
5. Isenberg employment contract amended to include automatic annual extensions.
7. Shareholders call to end tax gross ups on severance payments.
8. Chairman of the compensation committee reelected with only 52 percent of the vote.
10. Isenberg resigns as CEO.
11. Isenberg resigns as chairman of the board.

Note: Nabors Industries stock price adjusted for 2-for-1 split April 2006.

Source: Factiva. Center for Research in Securities Prices (University of Chicago).
## EXHIBIT 4 — NABORS INDUSTRIES: SELECTED RESULTS OF SHAREHOLDER VOTES

<table>
<thead>
<tr>
<th>Year</th>
<th>Resolution</th>
<th>Sponsor</th>
<th>% For All Companies</th>
<th>% For Shareholder</th>
<th>% For Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Grant shareholders advisory vote on pay*</td>
<td>Shareholder</td>
<td>39%</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>Pay for superior performance</td>
<td>Shareholder</td>
<td>36%</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>Eliminate tax gross ups on severance</td>
<td>Shareholder</td>
<td>43%</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>Pay for superior performance</td>
<td>Shareholder</td>
<td>31%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>Grant shareholders vote on payments following executive death</td>
<td>Shareholder</td>
<td>41%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>Pay for superior performance</td>
<td>Shareholder</td>
<td>40%</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Grant shareholders advisory vote on pay*</td>
<td>Shareholder</td>
<td>44%</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Pay for superior performance</td>
<td>Shareholder</td>
<td>40%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Require annual election of directors</td>
<td>Shareholder</td>
<td>75%</td>
<td>58%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Say on pay (vote to approve executive compensation)**</td>
<td>Management</td>
<td>43%</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Adopt majority voting in director elections</td>
<td>Shareholder</td>
<td>63%</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Require annual election of directors</td>
<td>Shareholder</td>
<td>75%</td>
<td>69%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Say on pay (vote to approve executive compensation)**</td>
<td>Management</td>
<td>25%</td>
<td>91%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Grant shareholders access to nominate directors on proxy</td>
<td>Shareholder</td>
<td>56%</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>Grant shareholders vote on severance agreements</td>
<td>Shareholder</td>
<td>66%</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Say on pay (vote to approve executive compensation)**</td>
<td>Management</td>
<td>36%</td>
<td>91%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Grant shareholders vote on performance targets in equity plans</td>
<td>Shareholder</td>
<td>25%</td>
<td>27%</td>
<td></td>
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<tr>
<td>2013</td>
<td>Grant shareholders vote on severance agreements</td>
<td>Shareholder</td>
<td>50%</td>
<td>34%</td>
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<tr>
<td>2013</td>
<td>Grant shareholders access to nominate directors on proxy</td>
<td>Shareholder</td>
<td>51%</td>
<td>32%</td>
<td></td>
</tr>
</tbody>
</table>

* Shareholder-sponsored proxy proposal that would require the company to grant shareholders the right to cast an advisory vote on executive compensation (prior to the Dodd-Frank Act of 2010).

** Management-sponsored proxy proposal to approve executive compensation (pursuant to Dodd Frank).

Notes: Voting percentages exclude abstentions. Average support among “all companies” is calculated as the percentage of votes in favor of similar proposals on other corporate proxies during the same year. Calculations by the authors.
### Exhibit 4 — Continued

<table>
<thead>
<tr>
<th>Year</th>
<th>Director Election</th>
<th>Term</th>
<th>% For</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Anthony G. Petrello, president and chief operating officer</td>
<td>3-year term</td>
<td>98%</td>
</tr>
<tr>
<td>2008</td>
<td>Myron M. Sheinfeld, compensation committee member</td>
<td>3-year term</td>
<td>93%</td>
</tr>
<tr>
<td>2008</td>
<td>Martin J. Whitman, compensation committee chair</td>
<td>3-year term</td>
<td>93%</td>
</tr>
<tr>
<td>2009</td>
<td>Eugene M. Isenberg, chairman of the board</td>
<td>3-year term</td>
<td>84%</td>
</tr>
<tr>
<td>2009</td>
<td>William T. Comfort, compensation committee member</td>
<td>3-year term</td>
<td>60%</td>
</tr>
<tr>
<td>2010</td>
<td>John V. Lombardi, compensation committee chair</td>
<td>3-year term</td>
<td>52%</td>
</tr>
<tr>
<td>2010</td>
<td>James L. Payne, compensation committee member</td>
<td>3-year term</td>
<td>52%</td>
</tr>
<tr>
<td>2011</td>
<td>Anthony G. Petrello, president and chief operating officer</td>
<td>3-year term</td>
<td>63%</td>
</tr>
<tr>
<td>2011</td>
<td>Myron M. Sheinfeld, compensation committee member</td>
<td>3-year term</td>
<td>43%</td>
</tr>
<tr>
<td>2012</td>
<td>James R. Crane, newly appointed director</td>
<td>1-year term</td>
<td>91%</td>
</tr>
<tr>
<td>2012</td>
<td>Michael C. Linn, newly appointed director</td>
<td>1-year term</td>
<td>97%</td>
</tr>
<tr>
<td>2012</td>
<td>John Yearwood, compensation committee member</td>
<td>1-year term</td>
<td>74%</td>
</tr>
<tr>
<td>2013</td>
<td>James R. Crane, technical &amp; safety committee chair</td>
<td>1-year term</td>
<td>71%</td>
</tr>
<tr>
<td>2013</td>
<td>Michael C. Linn, compensation committee member</td>
<td>1-year term</td>
<td>62%</td>
</tr>
<tr>
<td>2013</td>
<td>John V. Lombardi, compensation committee chair</td>
<td>1-year term</td>
<td>44%</td>
</tr>
<tr>
<td>2013</td>
<td>Howard Wolf, newly appointed director</td>
<td>1-year term</td>
<td>98%</td>
</tr>
<tr>
<td>2013</td>
<td>John Yearwood, compensation committee member</td>
<td>1-year term</td>
<td>47%</td>
</tr>
</tbody>
</table>

Note: Nabors had a classified ("staggered") board structure until 2011, annual terms thereafter. Voting percentages exclude broker non-votes.

Source: FactSet Research.
1. Semel resigns as dual chairman/CEO; Yang becomes CEO, Bostock chairman.
2. Microsoft announces bid to acquire Yahoo.
3. Icahn discloses investment in Yahoo; promises to reestablish merger talks.
4. Yang resigns; Bartz becomes CEO.
5. Bartz resigns; Thompson becomes CEO.
6. Thompson resigns; Mayer becomes CEO.
7. Yahoo’s 24 percent stake in Alibaba valued at $40 billion following Alibaba IPO.
8. Yahoo announces plan to pursue tax-free spinoff of Alibaba stake.
9. IRS declines to give assurance on tax status of Alibaba distribution.
10. Yahoo establishes committee to explore strategic alternatives; Starboard Value launches proxy contest (2016).

Source: Factiva. Center for Research in Securities Prices (University of Chicago).
1. Chesapeake becomes the second-largest independent producer of natural gas in the U.S.
2. Chesapeake signs McClendon to 5-year employment agreement, through 2012.
3. McClendon purchases Chesapeake shares on margin.
4. McClendon receives margin call; sells 95 percent of his Chesapeake shares.
5. Chesapeake signs McClendon to new 5-year contract; purchases map collection.
6. Chesapeake sells assets to improve financial condition.
7. McClendon receives $1.1 billion in loans to support Founder Well Participation Program.
8. McClendon steps down as chairman.
9. McClendon steps down as CEO.
10. McClendon indicted for conspiring to manipulate oil and gas lease prices; dies in car accident (2016).

Source: Factiva, Center for Research in Securities Prices (University of Chicago).
EXHIBIT 7 — CHESAPEAKE ENERGY: CEO COMPENSATION AND RELATED PARTY TRANSACTIONS (2008)

<table>
<thead>
<tr>
<th>Year</th>
<th>Salary</th>
<th>Bonus</th>
<th>Stock Awards</th>
<th>Option Awards</th>
<th>All Other Compensation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$975,000</td>
<td>$76,951,000</td>
<td>$20,342,384</td>
<td>-</td>
<td>$1,800,817</td>
<td>$100,069,201</td>
</tr>
<tr>
<td>2007</td>
<td>975,000</td>
<td>1,826,000</td>
<td>14,398,233</td>
<td>294,020</td>
<td>1,271,231</td>
<td>18,764,484</td>
</tr>
<tr>
<td>2006</td>
<td>975,000</td>
<td>1,581,000</td>
<td>9,288,550</td>
<td>1,412,612</td>
<td>1,819,698</td>
<td>15,076,860</td>
</tr>
</tbody>
</table>

OTHER RELATIONSHIPS AND TRANSACTIONS

In December 2008, the Company purchased an extensive collection of historical maps of the American Southwest from Mr. McClendon for $12.1 million, which represented his cost. A dealer who had assisted Mr. McClendon in acquiring this collection over a period of six years advised the Company that the replacement value of the collection in December 2008 exceeded the purchase price by more than $8 million. The maps have been displayed at the Company’s Oklahoma City headquarters for a number of years, during which the Company has been insuring the maps in exchange for their display. Our corporate headquarters in Oklahoma City is comprised of numerous buildings in a campus-type setting. These maps have been displayed throughout the Company’s headquarters for a number of years, complementing the interior design features of our campus buildings and contributing to our workplace culture. Our employees and visitors appreciate the maps’ depiction of the early years of the nation’s energy industry and the discovery and expansion of Indian Territory (now, Oklahoma) and the surrounding territories of the early United States. In addition, the collection connects to our Company’s everyday use of mapping in our business of exploring for and developing natural gas and oil. The Company was interested in continuing to have use of the map collection and believed it was not appropriate to continue to rely on cost-free loans of artwork from Mr. McClendon. The Board of Directors authorized the purchase of Mr. McClendon’s collection following review and approval by the Audit Committee and required that the Company’s purchase price be applied as a credit to Mr. McClendon’s future FWPP costs. Future purchases, if any, of historical maps or artwork for the Company’s headquarters will be made directly by the Company.

Source: Chesapeake Energy, Form DEF-14A filed April 30, 2009.
EXHIBIT 8 — CHESAPEAKE ENERGY: FOUNDER WELL PARTICIPATION PROGRAM (FWPP)

The FWPP permits Mr. McClendon, the Company’s cofounder, to participate and invest as a working interest owner in new wells drilled by the Company. … Shareholders approved the FWPP on June 10, 2005. … The Company believes the FWPP fosters and promotes the development and execution of the Company’s business by aligning the interests of Mr. McClendon and the Company. Mr. McClendon has continually participated in the FWPP since the Company’s initial public offering in 1993, except during the five-quarter period from January 1, 1999 to March 31, 2000. …

Under the FWPP, Mr. McClendon has the right to participate in either all or none of the wells spudded by or on behalf of the Company during each calendar year. Prior to the beginning of each year, Mr. McClendon must provide written notice to the members of the Compensation Committee of his election to participate in the FWPP and his proposed working interest percentage for that year. His working interest percentage may not exceed a 2.5% working interest in a well and is not effective for any well where the Company’s working interest after Mr. McClendon’s participation election would be reduced to below 12.5%. Subject to these limitations, if Mr. McClendon elects to participate in the FWPP, he must participate in all wells spudded by or on behalf of the Company during the given calendar year and cannot elect to participate on a well-by-well basis. In September 2011, Mr. McClendon elected to participate in the FWPP for the 2012 calendar year at the maximum 2.5% working interest permitted, the same participation percentage that Mr. McClendon has elected for the past nine years. …

Mr. McClendon believes the present value of the future net revenue (pretax) of the estimated proved developed producing reserves attributable to his FWPP interests at December 31, 2011, discounted at 10% per year and based on prices and costs under existing conditions at such date, was approximately $409.0 million. … Mr. McClendon’s FWPP interests are his personal assets and are separate and distinct from the Company’s interest in its oil and gas properties and other assets. The FWPP does not restrict sales, other dispositions or financing transactions involving FWPP interests acquired from the Company. From time to time, Mr. McClendon has sold FWPP interests separately and concurrently with sales by the Company of its interests in the same properties. … Since January 1, 2011 through April 26, 2012, Mr. McClendon advises that he realized approximately $108.6 million from such sales, and he paid approximately $550,000 of deal costs. Additionally, over the life of the FWPP, Mr. McClendon has typically mortgaged his interests acquired under the FWPP with one or more lenders, some of which also have lending, investment or advisory relationships with the Company. Mr. McClendon’s mortgages with these lenders secure loans used in whole or in part to fund Mr. McClendon’s well costs. The Company does not extend loans to Mr. McClendon for participation in the FWPP or any other purposes. Neither the Company nor the Board reviews or approves financings of Mr. McClendon’s personal assets, including his FWPP interests. In addition, the Company has no obligation to repay any loans Mr. McClendon may obtain nor are any of the Company’s interests in any assets exposed to such loans or the mortgages securing them.

Source: Chesapeake Energy, Form DEF-14A filed May 11, 2012.