

PREMCOR INC
Form DEF 14A
March 26, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

PREMCOR INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
- \$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(2) or Item 22(a)(2) of Schedule 14A.
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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

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Notice Of Annual Meeting Of Stockholders

To Be Held May 18, 2004

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Premcor Inc. will be held at the Hyatt Regency, 1800 East Putnam Avenue, Old Greenwich, Connecticut, on Tuesday, May 18, 2004, at 10:00 a.m. local time for the following purposes:

1. To elect nine (9) directors.
2. To amend the Premcor 2002 Equity Incentive Plan
3. To ratify the appointment of Deloitte & Touche LLP as our independent auditor for the fiscal year ending December 31, 2004.
4. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Stockholders of record at the close of business on March 23, 2004, shall be entitled to notice of, and to vote at, the Annual Meeting.

By order of the board of directors

Michael D. Gayda

Secretary

Dated: March 31, 2004
Old Greenwich, Connecticut

IMPORTANT: PLEASE FILL IN, DATE, SIGN AND MAIL THE ENCLOSED PROXY IN THE POSTAGE-PAID ENVELOPE PROVIDED, OR VOTE OVER THE TELEPHONE OR THE INTERNET, AS SOON AS POSSIBLE TO ENSURE THAT YOUR SHARES

ARE REPRESENTED AT THE ANNUAL MEETING.

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**Proxy Statement for the
Annual Meeting of Stockholders of**

PREMCOR INC.

To Be Held on Tuesday, May 18, 2004

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PREMCOR INC.

1700 East Putnam Avenue

Old Greenwich, Connecticut 06870

PROXY STATEMENT

The accompanying form of proxy is solicited by the board of directors of Premcor Inc., a Delaware corporation, for use at the Annual Meeting of Stockholders to be held at the Hyatt Regency, 1800 East Putnam Avenue, Old Greenwich, Connecticut, on Tuesday, May 18, 2004, at 10 a.m. local time, or any adjournment thereof, at which stockholders of record at the close of business on March 23, 2004 shall be entitled to vote. The cost of solicitation of proxies will be borne by us. We may use the services of our directors, officers, employees and others to solicit proxies, personally or by telephone. Arrangements may also be made with brokerage houses and other custodians, nominees, fiduciaries and stockholders of record to forward solicitation material to the beneficial owners of stock held of record by such persons. We may reimburse such solicitors for reasonable out-of-pocket expenses incurred by them in soliciting, but no compensation will be paid for their services.

There is being mailed herewith to each stockholder of record our Annual Report to Stockholders for the fiscal year ended December 31, 2003, which includes our Annual Report on Form 10K filed with the Securities and Exchange Commission. It is intended that this Proxy Statement and accompanying form of proxy will first be sent or given to stockholders on or about March 31, 2004. Additionally, you can access a copy of our Annual Report via our website at <http://www.premcor.com>.

Each proxy executed and returned by a stockholder may be revoked at any time before it is voted by timely submission of written notice of revocation or by submission of a duly executed proxy bearing a later date (in either case directed to our secretary) or, if a stockholder is present at the Annual Meeting, the stockholder may elect to revoke such proxy and vote such shares personally. Attendance at the Annual Meeting will not, in itself, constitute revocation of a previously granted proxy.

If the accompanying proxy card is properly signed and returned to us and not revoked, it will be voted in accordance with the instructions contained therein. Unless contrary instructions are given, the persons designated as proxy holders in the proxy card will vote FOR the slate of nominees proposed by our board of directors, FOR the amendment of the Premcor 2002 Equity Incentive Plan, FOR ratification of the appointment of Deloitte & Touche LLP as our independent auditor for the fiscal year ending December 31, 2004, and as recommended by the board of directors with regard to all other matters or, if no such recommendation is given, in their own discretion.

Pursuant to our by-laws, the board of directors has fixed March 23, 2004 as the time and date for the determination of stockholders entitled to vote at the Annual Meeting, notwithstanding any transfer of any stock on our books thereafter. On the record date, 74,183,430 shares of our common stock were outstanding and entitled to vote with respect to all matters to be acted upon at the Annual Meeting. Each holder of our common stock is entitled to one vote for each share of stock held by such holder. The presence at the Annual Meeting, in person or by proxy, of holders representing a majority of all the votes entitled to be cast at the Annual Meeting will constitute a quorum. In accordance with Delaware law, abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. Each item on the agenda must receive the affirmative vote of a majority of the shares voted at the Annual Meeting in order to pass. Abstentions are counted in the calculation of the votes cast with respect to any of the matters submitted to a vote of stockholders, whereas broker

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non-votes are not counted in determining the votes cast with respect to any of the matters submitted to a vote of stockholders.

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It is expected that the following business will be considered at the Annual Meeting and action taken thereon:

PROPOSAL ONE**ELECTION OF DIRECTORS**

Pursuant to our by-laws, the board of directors has set the number of our directors at nine members. It is proposed to elect nine directors at this Annual Meeting to hold office for a one year term until the 2005 Annual Meeting of Stockholders and until their successors are duly elected and qualified. It is intended that the accompanying form of proxy will be voted for the nominees set forth below, each of whom is presently a director. If some unexpected occurrence should make necessary, in the board of directors' judgment, the substitution of some other person or persons for any of the nominees, shares will be voted for such other person or persons as the board of directors may select. The board of directors is not aware that any nominee may be unable or unwilling to serve as a director. The following table sets forth certain information with respect to the nominees.

Nominees for Election

<u>Name</u>	<u>Age</u>	<u>Served as a Director Since</u>
Thomas D. O Malley	62	2002
Jefferson F. Allen (1)(2)	58	2002
Wayne A. Budd (3)	62	2003
Stephen I. Chazen (1)	57	1999
Marshall A. Cohen (1)	68	1999
David I. Foley (3)	36	1999
Robert L. Friedman (2)	61	1999
Richard C. Lappin (2)	59	1999
Wilkes McClave III (3)	56	2002

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the nominating and corporate governance committee.

Thomas D. O Malley has served as the chairman of our board of directors and our chief executive officer since February 2002 and served as our president from February 2002 until January 2003. Mr. O Malley served as vice chairman of the board of Phillips Petroleum Company from the consummation of that company's acquisition of Tosco Corporation in September 2001 until January 2002. Mr. O Malley served as chairman and chief executive officer of Tosco from January 1990 to September 2001 and president of Tosco from May 1993 to May 1997 and from October 1989 to May 1990. He currently serves on the board of directors of Lowe's Companies, Inc. and PETsMART, Inc.

Jefferson F. Allen has served as a director since February 2002. From June 1990 to September 2001, Mr. Allen served in various positions with Tosco Corporation, most recently serving as Tosco's president and chief financial officer. From November 1988 to June 1990, Mr. Allen served in various positions at Comfed Bancorp, Inc., including chairman and chief executive officer.

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Wayne A. Budd has served as a director since February 2003. Mr. Budd has served as the executive vice president and general counsel of John Hancock Financial Services, Inc. since May 2000. From April 1996 to May 2000, Mr. Budd served as group president-New England for Bell Atlantic Corporation (now Verizon Communications, Inc.). From 1993 to 1996, Mr. Budd was a senior partner at the Boston law firm of Goodwin Procter LLP. From 1992 to 1993 Mr. Budd served as Associate Attorney General for the United States and from 1989 to 1992, Mr. Budd served as the United States Attorney for the District of Massachusetts. Mr. Budd currently serves on the board of directors of John Hancock Financial Services, Inc. and McKesson Corporation.

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Stephen I. Chazen has served as a director since our formation in April 1999. Mr. Chazen served as a director of our predecessor from 1995 to April 1999. Mr. Chazen has served as executive vice president-corporate development and chief financial officer of Occidental Petroleum Corporation, or Occidental, since February 1999. From May 1994 to February 1999, he served as executive vice president-corporate development of Occidental. He currently serves on the board of directors of Lyondell Chemical Company.

Marshall A. Cohen has served as a director since our formation in April 1999. Mr. Cohen served as chairman of our board of directors from April 1999 to February 2002. Mr. Cohen has served as counsel at Cassels Brock & Blackwell LLP since October 1996. Mr. Cohen also serves as a member of the board of directors of American International Group, Inc., Barrick Gold Corporation, Collins & Aikman Corporation, Goldfarb Corporation, Lafarge Corporation, Metaldyne Corporation and The Toronto-Dominion Bank.

David I. Foley has served as a director since our formation in April 1999. Mr. Foley is a principal at The Blackstone Group L.P., or Blackstone, which he joined in 1995. Prior to joining Blackstone, Mr. Foley was an employee of AEA Investors Inc. from 1991 to 1993 and a consultant with The Monitor Company from 1989 to 1991. He currently serves on the board of directors of Mega Bloks Inc.

Robert L. Friedman has served as a director since July 1999. Mr. Friedman has served as a senior managing director of Blackstone since February 1999, and in February 2003 he also became its chief administrative officer and chief legal officer. From 1974 until the time he joined Blackstone, Mr. Friedman was a partner with Simpson Thacher & Bartlett, a New York law firm. He currently also serves on the board of directors of Axis Capital Holdings Limited, Houghton Mifflin Holdings, Inc., Northwest Airlines, Inc. and TRW Automotive Holdings Corp.

Richard C. Lappin has served as a director since October 1999. Mr. Lappin has served as a senior managing director of Blackstone from February 1999 to June 2003. From 1989 to 1998, he served as president of Farley Industries, which included West Point-Pepperell, Inc., Acme Boot Company, Inc., Tool and Engineering, Inc., Magnus Metals, Inc. and Fruit of the Loom, Inc. Mr. Lappin currently also serves on the board of directors of American Axle & Manufacturing, Inc.

Wilkes McClave III has served as a director since February 2002. From September 1982 to September 2001, Mr. McClave served in various positions with Tosco Corporation, most recently serving as Tosco's executive vice president, secretary and general counsel.

Corporate Governance Principles and Committee Charters

Our board of directors has adopted a comprehensive set of corporate governance principles to reflect its commitment to corporate governance and the role of such principles in building and sustaining stockholder value. These principles are discussed more fully below and are set forth in our Board of Directors Guidelines, our Code of Business Conduct and Ethics, and the committee charters for our Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. These documents are available on our website under Investor Relations / Corporate Governance at www.Premcor.com or by written request to Premcor Inc., Investor Relations, 1700 E. Putnam Ave., Suite 400, Old Greenwich, CT 06870. Our Audit Committee Charter is also attached as Appendix B to this Proxy Statement.

Board of Directors Guidelines

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Our Board of Directors Guidelines sets forth overall standards and policies for the responsibilities and practices of our board and board committees, including reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions; ensuring processes are in place for maintaining our company's integrity; assessing our major risks and reviewing options for their mitigation; selecting, monitoring and evaluating the performance of our board members and committees; selecting, evaluating and compensating our chief executive officer and overseeing succession planning; and providing counsel and oversight on the selection, evaluation, development and compensation of senior management.

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Code of Business Conduct and Ethics

All of our and our subsidiaries' employees, including our chief executive officer, chief financial officer, and principal accounting officer, and our directors are required to comply with the Code of Business Conduct and Ethics of Premcor Inc. As stated above, our code is published on our website. It is our intention to disclose any amendments to, or waivers from, any provision of our Code of Ethics as it applies to our chief executive officer, chief financial officer, and principal accounting officer on our website within three business days of such amendment or waiver.

Audit Committee

Our audit committee is comprised of three independent directors within the meaning of the New York Stock Exchange rules and federal securities laws, Messrs. Allen, Chazen and Cohen. Our board of directors has determined that audit committee members, Messrs. Allen and Chazen, are audit committee financial experts as defined by Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934 and has determined that they have accounting and related financial management experience under the rules of the New York Stock Exchange. The principal duties of our audit committee are as follows:

to assist the board of directors in fulfilling its oversight responsibilities by reviewing: the financial reports and other financial information we provide to any governmental body or the public; our systems of internal controls established by management and the board of directors regarding finance, accounting, and compliance; and our auditing, accounting and financial reporting processes generally. Consistent with this function, the audit committee endeavors to encourage continuous improvement of, and adherence to, our policies, procedures and practices at all levels;

to serve as an independent and objective body to monitor our financial reporting process and internal control system;

to review and appraise the qualifications, independence and audit efforts of our independent auditor and internal auditing department. Our audit committee is responsible for the retention of our independent auditor, subject to stockholder ratification, and the pre-approval of all audit fees, as well as significant non-audit engagements with the independent auditor;

to review the regular internal reports to management prepared by the internal auditing department and management's response;

to provide an open avenue of communication among the independent auditor, financial and senior management, the internal auditing department, and the board of directors;

to annually evaluate the audit committee's performance and charter; and

to provide an audit committee report to stockholders, as required by the Securities and Exchange Commission.

Compensation Committee

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Our compensation committee is comprised of three independent directors within the meaning of the New York Stock Exchange rules, Messrs. Lappin, Allen and Friedman. The principal duties of our compensation committee are as follows:

to review and approve corporate goals and objectives relevant to the compensation of our chief executive officer and, after an evaluation of our chief executive officer's performance in light of those goals and objectives, determine and approve our chief executive officer's compensation;

to ensure our senior executives are compensated effectively in a manner consistent with our stated compensation strategy, internal equity considerations, competitive practice, and the requirements of the appropriate regulatory bodies;

to approve and administer our executive compensation and benefits and provide oversight for the employee benefit plans;

to annually evaluate the compensation committee's performance and charter; and

to communicate to stockholders our compensation policies and the reasoning behind such policies, as required by the Securities and Exchange Commission.

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Nominating and Corporate Governance Committee

Our nominating and corporate governance committee is comprised of three independent directors within the meaning of the New York Stock Exchange rules, Messrs. McClave, Budd and Foley. The principal duties of our nominating and corporate governance committee are as follows:

to develop and recommend to the board a code of business conduct and ethics and to review the code at least annually;

to make recommendations to the board of directors regarding corporate governance matters and practices and to oversee an annual evaluation of the performance of the board and management;

to recommend to the board of directors proposed nominees for election to the board of directors by the stockholders at annual meetings, including an annual review as to the renominations of incumbents and proposed nominees for election by the board of directors to fill vacancies which occur between stockholder meetings. In evaluating a person as a potential nominee to serve on our board of directors, the committee considers, among other factors, 1) whether or not a person is an interested person as defined by New York Stock Exchange rules; 2) whether or not the person has any relationships that might impair his or her independence, such as any business, financial or family relationships with us, our management or affiliates; 3) whether or not the person serves on boards of, or is otherwise affiliated with, our competition; 4) whether or not the person is willing to serve as, and willing and able to commit the time necessary for the performance of the duties of, one of our directors; 5) the contribution which the person can make to our board and to our Company with consideration being given to the person's business and professional experience, education and such other factors as the committee considers relevant; and 6) the integrity and character of the person. We do not currently pay any fees to third parties to identify or evaluate or assist in identifying or evaluating potential nominees for directors. There are no differences in the manner in which the nominating and corporate governance committee evaluates nominees for director based on whether the nominee is recommended by a stockholder;

to annually evaluate the nominating and corporate governance committee's performance and charter; and

to consider stockholder recommendations for nominations for directors. While the nominating and corporate governance committee is responsible for the selection and nomination of the directors, the committee has adopted a policy to consider nominees recommended by our stockholders as it deems appropriate. Stockholders who wish to recommend a nominee should send nominations to Premcor Inc., 1700 E. Putnam Avenue, Suite 400, Old Greenwich, CT 06870, Attention: Corporate Secretary, that include all information relating to such person that is required to be disclosed in solicitations of proxies for the election of directors, including the nominee's name, business experience and consent to be nominated for membership on our board of directors and to serve if elected by the stockholders. The recommendation must be received by our Corporate Secretary no later than the date for stockholder proposals set forth herein under Other Matters Stockholder Proposals. We did not receive for this Annual Meeting any recommended nominees for director from any of our stockholders.

Attendance at Meetings

In the fiscal year ended December 31, 2003, there were seven meetings of the board of directors, six meetings of the audit committee, eight meetings of the compensation committee and seven meetings of the nominating and corporate governance committee. Each director attended in excess of 75% of the total number of meetings of the board of directors and committees thereof of which he was a member. Board members are encouraged to attend our annual meetings of stockholders. All of our nine directors attended our 2003 Annual Meeting.

Determination of Director Independence

Pursuant to rules adopted by the New York Stock Exchange and applicable law, a majority of our directors must be independent as specified therein. As a result, our board undertook a review of director independence. During its review, the board considered all relevant facts and circumstances that could impair independence, including transactions and relationships between each director or any member of his immediate family and us and our subsidiaries and affiliates, including those reported under Related Party Transactions below. Our board

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also examined transactions and relationships between directors or their affiliates and members of our senior management. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of this review, the board affirmatively determined that each of Messrs. Allen, Budd, Chazen, Cohen, Foley, Friedman, Lappin and McClave is independent of us and our management. The board determined that each of these independent directors did not have any material relationships with us. The only director who is not independent is Mr. O Malley, our chairman of the board and chief executive officer.

Executive Sessions of Non-Management Directors

The non-management directors of our board meet in executive session, generally at regularly scheduled meetings of the board of directors or at other times as considered necessary or appropriate. A presiding director is chosen by the non-management directors to preside at each meeting and does not need to be the same director at each meeting.

Communication with Non-Management Directors

Stockholders may address communications to our non-management directors to Premcor Inc., c/o Investor Relations, 1700 E. Putnam Ave., Suite 400, Old Greenwich, CT 06870. Correspondence addressed in this manner will be reviewed by our head of investor relations and will be summarized and/or delivered to the board or to individual directors in accordance with a process approved by our nominating and corporate governance committee.

Compensation of Directors

We have a compensation program for our non-employee directors consisting of an annual retainer of \$50,000, board of directors and committee meeting fees of \$1,000 per meeting, and an annual grant of options (with a five-year vesting schedule) to acquire 2,500 shares of our common stock at an exercise price equal to the fair market value on the date of grant. In addition, non-employee board and committee chairpersons receive an additional retainer of \$10,000 per year. All director compensation for Messrs. Foley and Friedman is paid directly to Blackstone. All non-cash director compensation for Mr. Chazen is paid directly to Occidental. We also provide Mr. Cohen certain health care benefits.

PROPOSAL TWO

AMENDMENT OF THE PREMCOR 2002 EQUITY INCENTIVE PLAN

We currently have three stock-based compensation plans which were designed to be competitive with other employers in our industry, to promote the long-term success of our Company, and ultimately to increase stockholder value by providing our executives, key employees, directors, consultants, and affiliates with the opportunity to participate along-side our stockholders in the long-term growth and profitability of Premcor. Our board of directors believes these plans have contributed to its ability to attract and retain a strong management team and key employees who are motivated through these performance-related incentives to achieve the Company's short and long-term goals.

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Our board of directors believes the Premcor 2002 Equity Incentive Plan (the Plan) has been an important component of our overall incentive compensation program. Under the Plan, we are authorized to issue 1,500,000 shares of common stock in the form of stock options, stock appreciation rights or other share-based awards. As a result of prior grants, the number of shares available under the Plan has been reduced to 8,166 and our board has determined that this number is insufficient to continue the Plan s effectiveness. Therefore, our board of directors has adopted, subject to stockholder approval, a proposal to amend the Plan to 1) increase the total number of shares authorized for grant by 3,000,000 shares to 4,500,000 shares; and 2) to require stockholder approval for

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any repricing of outstanding stock options, except for those permitted under certain circumstances as described in the Plan. Our board of directors does not anticipate repricing outstanding stock options in the future, but believes a requirement that stockholder approval be obtained for such an action is an important element of a responsible equity incentive compensation plan. A majority of the shares represented at our Annual Meeting and entitled to vote must vote for this proposal to amend the Plan. Broker non-votes will be disregarded. If the amendment is approved, the additional shares available under the Plan will be registered under the Securities Act of 1933. If the amendment is not approved, additional awards will be made only to the extent there are shares available under the Plan.

Our stock-based compensation plans, including the Plan, the 2002 Special Stock Incentive Plan, and the 1999 Stock Incentive Plan were approved by our stockholders on January 30, 2002. The Plan was amended October 24, 2002 to clarify the definition of fair market value. Information about shares authorized for issuance as of March 1, 2004 for the Plan, as well as for the 2002 Special Stock Incentive Plan, and the 1999 Stock Incentive Plan are described in this Proxy Statement in the section Other Employee Benefits.

Summary Description of the Premcor 2002 Equity Incentive Plan

The principal features of the Plan are summarized below. This summary is qualified in its entirety by the full text of the Plan, as proposed to be amended, a copy of which is attached as Appendix A to this Proxy Statement.

Plan Administration

The Plan is administered by the compensation committee of our board of directors (the Committee), which is comprised of three non-management, independent directors. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee has the full power and authority to establish the terms and conditions of any awards under the Plan consistent with Plan provisions and to waive the terms and conditions of an award, except that as proposed for amendment, the Plan requires stockholder approval for the repricing of any outstanding option, except for those permitted under certain circumstances as described in the Plan.

Shares Available

Under the Plan, the aggregate number of shares authorized for issuance is 1,500,000 common shares. As of March 1, 2004, there are 8,166 shares available for future issuance under the Plan. Approval of Proposal Two will increase the number of shares available for future issuance under the Plan by 3,000,000 shares. Our board of directors currently limits annual option issuance to approximately 1% of our outstanding common stock and intends to maintain total stock options outstanding at approximately 10% or less of our outstanding common stock. The maximum number of shares subject to options and stock appreciation rights which may be granted during a calendar year to a participant is one million, respectively. If an award is forfeited, cancelled, does not vest or is paid in cash, any unissued common shares allocated to such award is available for subsequent awards under the Plan.

After a Change of Control, as defined in Section 2 of the Plan, the Committee may provide for the accelerated vesting of an outstanding award, the termination of an award and payment in cash for the value thereof, and/or the issuance of substitute awards.

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To prevent dilution or expansion of participants' rights, the number of shares available under the Plan and the number and exercise prices of the then outstanding awards are subject to adjustment by reason of any share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off or combination transaction or exchange of shares or other corporate exchange, or any distribution to shareholders of shares.

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Our common stock is traded on the New York Stock Exchange, and on March 1, 2004, the closing price was \$31.75.

Participants

Persons eligible to participate in the Plan include Premcor employees, directors, consultants and affiliates, as defined in Section 2 of the Plan. We currently have approximately 1,770 employees.

The employment agreements for Messrs. O Malley, Hantke, Gayda and Voss provide for the granting of options in January 2005 for the purchase of our common stock in the amount of 150,000 shares to Mr. O Malley and 25,000 options each to Messrs. Hantke, Gayda and Voss. Mr. O Malley's options are to be granted under the 2002 Special Stock Incentive Plan. The stock options for Messrs. Hantke, Gayda and Voss are to be granted under the Plan. In addition, under our compensation program for directors, each of our eight non-management directors will receive an annual option grant to acquire 2,500 shares of our common stock. Such options will be granted under the Plan or the 1999 Stock Incentive Plan. Other than the option grants required pursuant to certain of the executive officers' employment agreements and our director compensation program, the number, amount and type of awards to be granted under the Plan in the future cannot be determined at this time. However, we expect that future grants to our named executive officers will be similar to those described in the Summary Compensation Table and Option Grants in the Last Fiscal Year table and that annual option issuances to all of our executive officers, employees and directors in the aggregate, will be limited to approximately 1% of our outstanding common stock.

Awards

The Plan authorizes issuance of stock options, stock appreciation rights, limited stock appreciation rights and other share-based awards, including awards of shares, restricted shares, restricted stock units, and other awards based on the fair market value of our common stock. Stock options granted under the Plan may or may not qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code). Exercise prices, terms and all other conditions of the awards are determined by the Committee.

Stock Options. The Committee may grant stock options, which entitle the participant to purchase our common stock at a price established by the Committee. The Committee determines the term of the stock options, including the times and conditions under which the options become exercisable.

Stock Appreciation Rights (SARs). The Committee may grant SARs, which give the participant a right to receive payment in an amount equal to the appreciation, if any, in the Fair Market Value, as defined in Section 2 of the Plan, of a share from the date of the grant to the date of its payment. Such payment is made in cash, in common stock or in any combination of cash and common stock, as the Committee may determine.

Limited Stock Appreciation Rights (LSARs). The Committee may grant LSARs, which give the participant a right to receive a payment based on the appreciation in the Fair Market Value of a share from the date of grant to the date of its payment and which are exercisable upon the occurrence of specified contingent events. Such payment is made in cash.

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Restricted Shares. The Committee may grant benefits under the Plan in the form of Restricted Shares. Restricted Shares are issued and delivered at the time of the grant but are subject to forfeiture as provided in the participant's individual agreement. The participant may be entitled to full voting and dividend rights with respect to all shares of Restricted Shares from the date of grant, but cannot transfer such shares until all restrictions have been satisfied.

Restricted Stock Units (RSUs). The Committee may grant RSUs, which give the participant the right to receive a payment equal to the fair market value of a share of common stock for each RSU subject to the grant once all the applicable restrictions have been satisfied. Such payment is made in cash, in common stock or in any combination of cash and common stock, as the Committee may determine.

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Other Share-Based Awards. An Other Share-Based Award is an award that is valued in whole or in part by reference to, or is otherwise based on, our common stock.

The Plan is to remain in effect until it is terminated by the Board. The Board, in its sole discretion, may terminate the Plan at any time and from time to time may amend or modify the Plan. However, the Board may not amend the Plan, without obtaining shareholder approval, to increase the maximum number of shares available for Awards under the Plan. No amendment, modification or termination of the Plan will adversely affect a participant's right to any benefit granted under the Plan prior to such amendment or termination, unless the participant consents to such amendment, modification or termination.

Federal Income Tax Consequences

Stock Options. No income will be realized by a participant on the grant of a stock option, and we will not be entitled to a deduction at such time. If a participant exercises an incentive stock option and does not dispose of the shares acquired within two years from the date of the grant, or within one year from the date of exercise of the option, no income will be realized by the participant at the time of exercise. We will not be entitled to a deduction by reason of the exercise.

If a participant disposes of the shares acquired pursuant to an incentive stock option within two years from the date of grant of the option or within one year from the date of exercise of the option, the participant will realize ordinary income at the time of disposition which will equal the excess, if any, of the lesser of (a) the amount realized on the disposition, or (b) the fair market value of the shares on the date of exercise, over the participant's basis in the shares. We generally will be entitled to a deduction in an amount equal to such income in the year of the disqualifying disposition.

Upon the exercise of a non-qualified option, the excess, if any, of the fair market value of the stock on the date of exercise over the purchase price is ordinary income to the holder as of the date of exercise. We generally will be entitled to a deduction equal to such excess amount in the year of exercise.

SARs and LSARs. No income will be realized by a participant on the grant of a SAR or LSAR, and we will not be entitled to a deduction at such time. Upon the exercise of a SAR or LSAR, the excess, if any, of the fair market value of the stock on the date of exercise over the fair market value of the stock on the date of grant is ordinary income to the holder as of the date of exercise. We generally will be entitled to a deduction equal to such excess amount in the year of exercise.

Restricted Shares. Unless a timely Section 83(b) election is made, as described in the following paragraph, a participant generally will not recognize taxable income upon the grant of restricted shares because the restricted shares generally will be nontransferable and subject to a substantial risk of forfeiture. A participant will recognize ordinary income when the restrictions that impose a substantial risk of forfeiture on the shares of common stock or the transfer restrictions (collectively, the Restrictions) lapse. The amount recognized will be equal to the difference between the fair market value of the shares at the time the Restrictions lapse and the original purchase price paid for the shares, if any. The ordinary income recognized by a participant with respect to restricted shares will be subject to applicable tax withholding by us. If a timely Section 83(b) election has not been made, any dividends received with respect to common stock subject to the Restrictions will be treated as additional compensation income and not as dividend income.

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A participant may elect, pursuant to Section 83(b) of the Code, to recognize as ordinary income the fair market value of the restricted shares upon grant, notwithstanding that the restricted shares would otherwise not be includable in gross income at that time. If the election is made within 30 days of the date of grant, then the participant would include in gross income an amount equal to the difference between the fair market value of the restricted shares on the date of grant and the purchase price paid for the restricted shares, if any. Any change in the value of the shares after the date of grant will be taxed as a capital gain or capital loss only if and when the shares are disposed of by the participant. If the Section 83(b) election is made, the participant's holding period for capital gains begins on the date of grant.

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The Section 83(b) election is irrevocable. If a Section 83(b) election is made and the participant then forfeits the restricted shares, the participant may not deduct as a loss the amount previously included in gross income.

A participant's tax basis in shares of restricted shares received will be equal to the sum of the amount (if any) the participant paid for the common stock and the amount of ordinary income recognized by the participant as a result of making a Section 83(b) election or upon the lapse of the Restrictions. Unless a Section 83(b) election is made, the participant's holding period for the shares for purposes of determining gain or loss on a subsequent sale will begin on the date the Restrictions on the shares lapse.

In general, we will be entitled to a deduction at the same time, and in an amount equal to, the ordinary income recognized by a participant with respect to restricted shares.

If, subsequent to the lapse of the Restrictions on the shares, the participant sells the shares, the difference, if any, between the amount realized from the sale and the tax basis in the shares of the participant will be taxed as a capital gain or capital loss.

RSUs. No income will be realized by a participant on the grant of a RSU, and we will not be entitled to a deduction at such time. Upon the lapse of the restrictions, the participant will recognize ordinary income equal to the fair market value of a share of common stock for each RSU. We generally will be entitled to a deduction equal to the amount included in ordinary income by the participant.

Other Share-Based Awards. The tax consequences associated with any other stock-based award will vary depending on the specific terms of the award, including whether the award has a readily ascertainable fair market value, whether or not the award is subject to forfeiture provisions or restrictions on transfer, the nature of the property to be received by the participant under the award, the applicable holding period and the participant's tax basis.

Income Tax Rates on Capital Gain and Ordinary Income. Under current tax law, short-term capital gains and ordinary income will be taxable at a maximum federal rate of 35%. Phaseouts of personal exemptions and reductions of allowable itemized deductions at higher levels of income may result in slightly higher marginal tax rates. Ordinary compensation income generally will also be subject to the Medicare tax and, under certain circumstances, a social security tax. On the other hand, long-term capital gains will be taxable at a maximum federal rate of 15%.

Non-United States Taxpayers. If a participant is subject to the tax laws of any country other than the United States, the participant should consult his or her own tax and legal advisors to determine the tax and legal consequences of any award received under the Plan.

The foregoing statement is only a summary of certain federal income tax consequences of the Plan and is based on our understanding of present federal tax laws and regulations.

Securities Authorized for Issuance Under Equity Compensation Plans

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We have three stock-based compensation plans pursuant to which options for the purchase of our common stock may be granted. All of our plans have been approved by our stockholders. The following is a summary of the shares reserved for issuance pursuant to our stock-based compensation plans as of December 31, 2003:

	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under the equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	5,114,171	\$14.49 per share	1,351,225
Equity compensation plans not approved by security holders			
Total	5,114,171	\$14.49 per share	1,351,225

Our board of directors recommends a vote FOR the approval of the amendment to the Premcor 2002 Equity Incentive Plan.

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PROPOSAL THREE

APPOINTMENT OF INDEPENDENT AUDITOR

The audit committee of our board of directors has appointed, subject to stockholder ratification, Deloitte & Touche LLP as our independent auditor for the fiscal year ending December 31, 2004. A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting with the opportunity to make a statement if such representative so desires and to respond to appropriate questions.

Our board of directors and audit committee recommend a vote FOR the ratification of the appointment of Deloitte & Touche LLP as our independent auditor.

Service Fees Paid to Auditors

Audit Fees

The aggregate fees billed by Deloitte & Touche LLP (D&T) for professional services for the audit of our annual consolidated financial statemen