

RELIANT ENERGY INC
Form DEF 14A
April 29, 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

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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

RELIANT ENERGY, INC.

(Name of each Registrant as Specified in its Charter)

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

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(4) Date Filed:

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(Formerly Reliant Resources, Inc.)

Proxy Statement

and

Notice of 2004 Annual Meeting

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April 29, 2004

Notice of Annual Meeting of Stockholders

Dear Stockholder:

You are invited to attend the Reliant Energy, Inc. (formerly Reliant Resources, Inc.) 2004 Annual Meeting of Stockholders. The meeting will be held at the Doubletree Hotel-Allen Center, 400 Dallas Street, Second Floor, Houston, Texas, in Granger Ballroom A, at 9:00 a.m., central daylight time, on Wednesday, June 2, 2004. At the meeting, stockholders will be asked to:

1. Elect two directors to our board of directors;
2. Ratify the Audit Committee's selection of Deloitte & Touche LLP as our independent auditors for 2004;
3. Vote on a stockholder proposal requesting that the Compensation Committee of the Board of Directors adopt a policy requiring its executive officers to retain any shares of our common stock acquired through the exercise of stock options or restricted stock until 90 days after their termination from employment or other service with the Company; and
4. Transact such other business that may properly come before the meeting.

Stockholders of record at the close of business on April 7, 2004 are entitled to vote. Each share entitles the holder to one vote. You may vote 1) by attending the meeting, 2) by completing the enclosed proxy card, 3) by voting on the Internet or 4) by voting by telephone. For specific voting information, see Voting Information on page 1. **Even if you plan to attend the meeting, please sign, date and return the enclosed proxy card or use telephone or Internet voting.**

Attendance is limited to stockholders only. Check-in will begin at 8:15 a.m. Stockholders holding stock in brokerage accounts will need to bring a brokerage statement as proof of share ownership. Cameras and recording devices will not be allowed in the meeting. If you need special assistance at the Annual Meeting because of a disability, please contact our Assistant Corporate Secretary, Wendi Zerwas, at (713) 497-5636.

Sincerely,

Michael L. Jines
Senior Vice President,
General Counsel and Corporate Secretary

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RELIANT ENERGY, INC.

(formerly Reliant Resources, Inc.)

1000 Main Street

Houston, Texas 77002

(713) 497-3000

PROXY STATEMENT

General Information

This proxy statement contains information related to the Annual Meeting of Stockholders of Reliant Energy, Inc. (Reliant or the Company) to be held at 9:00 a.m., central daylight time, on Wednesday, June 2, 2004, at the Doubletree Hotel-Allen Center, 400 Dallas Street, Second Floor, Houston, Texas, in Granger Ballroom A. This proxy statement is being mailed to stockholders on or about May 4, 2004.

What is the purpose of the Annual Meeting?

At our Annual Meeting, stockholders will act upon the matters outlined in the notice of meeting on the cover page of this proxy statement, including the election of directors, ratification of our independent auditors and consideration of a stockholder proposal, if properly presented at the meeting.

What happened to the Company's former name, Reliant Resources?

Prior to April 26, 2004, the Company's corporate name was Reliant Resources, Inc. On April 26, 2004, we changed our corporate name to Reliant Energy, Inc. We changed our name in order to align our corporate name with our brand name. No action is required on your part in connection with the name change and your rights as a stockholder were not affected by the name change.

Who is entitled to vote at the meeting?

Only stockholders of record at the close of business on April 7, 2004, the record date for the meeting, are entitled to receive notice of and participate in the Annual Meeting. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponements or adjournments of the meeting.

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You may own common shares 1) directly in your name as the stockholder of record, 2) indirectly through a broker, bank or other holder of record or 3) indirectly in any of the following plans (collectively, the Reliant Benefit Plans):

Reliant Savings Plan; and

Reliant Union Savings Plan.

If your shares are registered directly in your name, you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us, give your voting instructions on the Internet or by telephone or to vote in person at the Annual Meeting.

If you hold your shares in a brokerage account or through a bank or other holder of record, you hold the shares in street name, and your broker, bank or other holder of record is sending these proxy materials to you. As a holder in street name, you have the right to direct your broker, bank or other holder of record how to vote by following the instructions that accompany your proxy materials.

If you hold your shares indirectly in the Reliant Benefit Plans, you have the right to direct the trustee of the Reliant Benefit Plans how to vote by following the instructions that accompany your proxy materials.

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What are the voting rights of holders of Reliant common stock?

Each outstanding share of Reliant common stock will be entitled to one vote on each matter considered at the meeting.

Who can attend the meeting?

Subject to space availability, all stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Registration and seating will begin at 8:15 a.m. Each stockholder may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

If you hold your shares in street name (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date.

How do I vote?

If you are a holder of record, you can vote by signing and returning your proxy card by mail in the enclosed postage-paid envelope. If you hold your shares in street name, please complete and mail the voting instruction form that accompanies your proxy materials.

If you are a registered stockholder and attend the meeting, you may deliver your completed proxy card in person. Street name stockholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares. If you hold your shares in street name, you must obtain a proxy, executed in your favor, from the holder of record if you wish to vote these shares at the Annual Meeting. The way you vote your shares now will not limit your right to change your vote at the Annual Meeting if you attend in person.

Can I vote by Internet?

If you are a registered stockholder (that is, if you hold shares in your name), you may vote your shares electronically through the Internet. Simply follow the instructions included with your proxy card. A vote through the Internet authorizes the named proxies in the same manner as if you signed and returned your proxy card by mail. If you hold your shares through a broker or nominee, please check your proxy voting instruction form to determine how you can vote through the Internet.

Can I vote by telephone?

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If you are a registered stockholder (that is, if you hold shares in your name), you may vote by telephone by following the instructions included with your proxy card. A vote by telephone authorizes the named proxies in the same manner as if you signed and returned your proxy card by mail. If you hold your shares through a broker or nominee, please check your proxy voting instruction form to determine how you can vote by telephone. You may vote by telephone 24 hours a day.

Can I change my vote?

You can revoke your proxy at any time before your shares are voted if you 1) submit a written revocation to our Assistant Corporate Secretary by mail to Reliant Energy, Inc., 1000 Main Street, 12th Floor, Houston, Texas 77002 or by facsimile at (713) 497-0140, 2) submit a later-dated proxy (or voting instructions if you hold shares in street name), 3) provide subsequent telephone or Internet voting instructions or (4) vote in person at the Annual Meeting.

How do I vote shares in the Reliant Benefit Plans?

If you participate in the Reliant Savings Plan or the Reliant Union Savings Plan, you must return your voting instructions by 11:59 p.m., central daylight time on May 27, 2004. If your instructions are not received

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by that time, your shares will be voted in the same proportion as the shares for which timely participant directions have been received, except where doing so would be inconsistent with the provisions of Title I of the Employee Retirement Income Security Act of 1974 (as amended).

What are the Board's recommendations?

The Board's recommendations are set forth together with the description of each item in this proxy statement. In summary, the Board and, with respect to the ratification of the auditors, the Audit Committee, recommends a vote:

For election of the nominated slate of directors (see Item 1);

For ratification of the appointment of Deloitte & Touche LLP as our independent auditors for fiscal 2004 (see Item 2); and

Against approval of the stockholder proposal (see Item 3).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

What constitutes a quorum?

We will have a quorum, and will be able to conduct the business of the Annual Meeting, if the holders of a majority of the shares entitled to vote are represented in person or by proxy at the meeting. As of the record date, 295,675,405 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of at least 147,837,703 shares of common stock will be required to establish a quorum. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the votes considered to be present at the meeting. A broker non-vote occurs when a broker lacks discretionary voting power to vote on a specific matter (e.g., non-routine proposals) and a beneficial owner fails to give the broker voting instructions on that matter.

What vote is required to approve each item?

Election of Directors. The affirmative vote of a plurality of the votes cast by the holders of shares entitled to vote at the meeting is required for the election of directors. A properly executed proxy card marked "Withhold authority" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

Ratification of Our Auditors. The affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, the item will be required for ratification. A properly executed proxy card marked "Abstain" with respect to this matter will not be voted, although it will be counted for purposes of determining whether there is a quorum.

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Adoption of Stockholder Proposal. The affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy card marked "Abstain" with respect to this matter will not be voted, although it will be counted for purposes of determining whether there is a quorum.

How are votes counted?

In determining whether we have a quorum, we count abstentions and broker non-votes as present and entitled to vote. In counting votes on the proposals:

We count votes withheld for one or more nominees as votes cast for the election of directors. Brokers have discretion to vote on election of directors absent voting instructions.

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We do not count abstentions as votes cast on our proposal to ratify the selection of auditors. Therefore, abstentions will have no impact on the outcome of this proposal. Brokers have discretion to vote on the proposal to ratify the selection of auditors absent voting instructions.

Due to the vote required to approve the stockholder proposal, abstentions will have the same impact as a negative vote on this proposal. We do not count broker non-votes as votes cast on this proposal, and broker non-votes will have no impact on the outcome of this proposal.

All shares that have been properly voted and not revoked will be voted at the Annual Meeting. If you sign and return your proxy card without any voting instructions, your shares will be voted by the persons named in the proxy card in accordance with the recommendations of the Board.

Is my vote confidential?

We maintain the confidentiality of the votes of individual stockholders. We do not disclose these votes to any member of management, unless we must disclose them for legal reasons. However, if a stockholder writes a comment on the proxy card, we will forward the comment to management. In reviewing the comment, management may learn how the stockholder voted. In addition, the Inspector of Election and selected employees of our independent tabulating agent may have access to individual votes in the normal course of counting and verifying the vote.

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Corporate Governance

The following sections summarize information about how we are governed by our Board of Directors, the criteria the Board uses in selecting its nominees, how stockholders may participate in the nomination process, and our Board's compensation.

Governance of the Company

Corporate Governance Guidelines

We are committed to having sound corporate governance principles. To evidence this commitment, the Board has adopted Corporate Governance Guidelines, which, along with the charters of the Board Committees, our Business Ethics Policy and our Corporate Compliance Program, provide the framework for the governance of the Company. A complete copy of our Corporate Governance Guidelines, the charters of all our Board Committees (Audit, Compensation and Nominating & Governance), the Business Ethics Policy and the Corporate Compliance Program are available on our Investor Relations website, which can be reached through a link at <http://www.reliant.com/corporate>. A copy of our Audit Committee charter is also attached as *Appendix A* to this proxy statement.

Substantial Majority of Independent Directors

Our Corporate Governance Guidelines require that the Board be composed of a substantial majority of directors who meet the criteria for independence established by the New York Stock Exchange.

Pursuant to our Corporate Governance Guidelines, the Nominating & Governance Committee of our Board annually reviews relationships between each director and the Company and reports the results of its review to the Board, which then determines which directors satisfy the applicable independence standards. In March 2004, the Committee undertook its annual review of director independence. The Committee considered, among other things, transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates. The Committee also examined transactions and relationships between directors or their affiliates and members of our senior management or their affiliates. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

In March 2004, our Board determined that the following incumbent directors are independent of the Company and its management: Ms. Perez and Messrs. Barnett, Breeding, Caldwell, Miller, and Transier. The Board's determination was subject to further consultation with the New York Stock Exchange concerning the application of Section 303A.02(b)(v) of the Listed Company Manual to Mr. Barnett's relationship with his former law firm, Baker Botts LLP (Baker Botts). Baker Botts provides certain ongoing legal services to the Company, but given the limited nature of Mr. Barnett's relationship with Baker Botts (i.e., his status as a retired partner), the Board determined that he has no material relationship with the Company. Mr. Barnett, a former managing partner of Baker Botts, retired from the firm in 1997. He holds the title of Senior Counsel to the firm in recognition of his past services and contribution to the firm and his continued involvement in numerous charitable and civic activities. Since his retirement, he has received from the firm a fixed payment benefit, in addition to his normal retirement benefits, in recognition of his continued participation in these charitable and civic activities. Effective as of the date of our Annual Meeting, Mr. Barnett will relinquish his title as Senior Counsel and terminate the fixed payment arrangement thereby meeting the requirements specified in Section 303A.02(b)(v) of the Listed Company Manual. Mr. Staff, the Chairman of the Board and our Chief Executive Officer, is not considered an

independent director because he has an employment relationship with the Company.

Code of Business Conduct

We have adopted a Business Ethics Policy that constitutes a code of conduct and ethics for directors, officers and employees. The Policy requires that any waiver of the Policy be made only by the Board or an

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independent committee of the Board and that any such waiver be disclosed as required by law and regulation. In 2003, we granted no waivers of the Business Ethics Policy for any of our directors or executive officers.

Among other things, the Business Ethics Policy addresses:

Conflicts of interest

Corporate opportunities

Confidentiality

Fair dealing

Protection and use of our assets

Compliance with laws, rules and regulations (including insider trading laws)

Encouraging the reporting of any illegal or unethical behavior

Corporate Compliance Program

We have also adopted a Corporate Compliance Program that implements measures to ensure compliance with the terms of the Business Ethics Policy. The compliance program is subject to oversight by the Audit Committee. Additionally, we have a Corporate Compliance Officer responsible for implementing and reviewing measures to ensure compliance with the Business Ethics Policy. Our Corporate Compliance Officer works with the Office of Ethics and Compliance, a group composed of our senior executive management, as well as management representatives from each of our functional areas, to monitor compliance with the Business Ethics Policy and ensure the current policies and controls are adequate to ensure that our business practices are consistent with the Business Ethics Policy.

Table of Contents**Board Structure and Committee Composition***Board and Committee Meetings*

Our business is managed by our employees under the direction and oversight of the Board. During 2003, the Board met 31 times. All of our directors attended at least 75 percent of the meetings of the Board and Board committees on which they served in 2003 (during the period for which such director served).

The following table lists our three Board committees, the directors who currently serve on them and the number of committee meetings held in 2003.

<u>Committee</u>	<u>Members</u>	<u>Number of Meetings Held in 2003</u>
Audit Committee	Laree E. Perez (Chairman)	17
	Donald J. Breeding	
	William L. Transier	
Compensation Committee	William L. Transier (Chairman)	4
	E. William Barnett	
	Steven L. Miller	
Nominating & Governance Committee	E. William Barnett (Chairman)	5
	Donald J. Breeding	
	Kirbyjon H. Caldwell	
	Steven L. Miller	
	Laree E. Perez	

Summary of Committee Responsibilities

The following is a summary of the responsibilities and composition of each committee of the Board.

Audit Committee

The purpose of the Audit Committee, as reflected in its charter attached as Appendix A, is to oversee:

the quality and integrity of the financial statements;

our compliance with legal and regulatory requirements;

the independent auditor's qualifications and independence;

our compliance program and the activities of the Corporate Compliance Officer and Chief Risk Officer; and

the performance of our internal audit function and independent auditors.

In addition, our Audit Committee annually conducts a review of the Company's environmental policies and initiatives, including discussions with management about the Company's policies and initiatives relating to greenhouse emissions.

Laree E. Perez, Donald J. Breeding and William L. Transier serve on the Audit Committee. The Board has determined that all of the members of the Audit Committee are independent directors within the meaning of Securities and Exchange Commission (SEC) regulations, the listing standards of the New York Stock Exchange and our Corporate Governance Guidelines. The Board has determined that Ms. Perez, the chairperson of the Audit Committee, and Mr. Transier are qualified as audit committee financial experts within the meaning of SEC regulations. In addition, the Board has determined that each member of the

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Audit Committee has the accounting and related financial management expertise within the meaning of the listing standards of the New York Stock Exchange. None of the members of our Audit Committee simultaneously serves on the Audit Committee of more than three public companies.

Nominating & Governance Committee

The Nominating & Governance Committee is responsible for advising the Board about and recommending to the Board appropriate corporate governance practices and assisting the Board in implementing those practices. The Nominating & Governance Committee reports to the Board regarding, and recommends to the Board for adoption, appropriate corporate governance guidelines and modifications to these guidelines. In addition, the Nominating & Governance Committee assists the Board in identifying individuals qualified to become board members, and recommends to the Board director nominees for election at the Annual Meeting of Stockholders or for appointment to fill vacancies. The Nominating & Governance Committee also leads the Board in its annual review of the performance of the Board and its committees. The Nominating & Governance Committee also annually reviews relationships between each director and the Company and reports the results of its review and makes appropriate recommendations for final action to the Board. The chairman of the Nominating & Governance Committee is designated as the Lead Director who, in turn, is responsible for presiding over meetings of non-management directors as a whole and working with the Chairman of the Board to set agenda items for the Board's consideration.

E. William Barnett, Donald J. Breeding, Kirbyjon H. Caldwell, Steven L. Miller and Laree E. Perez serve on the Nominating & Governance Committee. The Board has determined that, as of the date of the Annual Meeting, all of the members of the Nominating & Governance Committee will be independent directors within the meaning of the listing standards of the New York Stock Exchange and our Corporate Governance Guidelines.

Compensation Committee

The Compensation Committee, in accordance with its charter, has direct responsibility for the following:

review, evaluation, and approval of agreements, plans, policies and programs to compensate our officers and directors;

oversight of plans, policies and programs to compensate employees;

the production of a report on executive compensation each year for inclusion in the proxy statement for the Annual Meeting of Stockholders;

evaluation of the performance of the Chief Executive Officer and executive management; and

the determination of compensation of the Chief Executive Officer and such other members of executive management as the Compensation Committee deems appropriate.

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William L. Transier, E. William Barnett and Steven L. Miller serve on the Compensation Committee. The Board has determined that, as of the date of the Annual Meeting, all of the members of the Compensation Committee will be independent directors within the meaning of the listing standards of the New York Stock Exchange and our Corporate Governance Guidelines.

Meetings of Non-Management Directors

To facilitate candid discussion by our non-management directors regarding our management, the agenda for every regularly-scheduled Board meeting provides for a meeting of non-management directors in executive session. The Chairman of the Nominating & Governance Committee is designated as the Lead Director empowered under our Corporate Governance Guidelines to preside over meetings of non-management directors as a whole, assist in the preparation of the agenda for each meeting and review each such agenda in advance of the meeting for which it was prepared.

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Director Nominations

Director Qualifications and Nomination Process

The Nominating & Governance Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. The Committee may retain a third-party executive search firm to assist it in identifying candidates. The Committee maintains a current biographical profile of potential director candidates.

Once the Nominating & Governance Committee has identified a prospective nominee, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. The initial determination is based on whatever information is provided to the Committee with the recommendation of the prospective candidate, as well as the Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below.

If the Committee determines, in consultation with the Chairman of the Board and other members, as appropriate, that additional consideration is warranted, it may request a third-party search firm to gather additional information about the prospective nominee's background and experience and report its findings to the Committee. The Committee then evaluates the prospective nominee against the standards and qualifications set out in our Corporate Governance Guidelines and the charter of the Nominating & Governance Committee, including:

A candidate's experience;

Independence (as defined by applicable New York Stock Exchange and SEC rules);

Knowledge;

Commitment to our core values;

Skills, expertise, independence of mind and integrity;

Relationships with the Company;

Service on the boards of directors of other companies;

Openness, ability to work as part of a team and willingness to commit the required time; and

Familiarity with the Company and its industry.

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The Nominating & Governance Committee also considers the diversity of, and the optimal enhancement of the current mix of talent and experience on, the Board and other factors as it deems relevant, including the current composition of the Board, the balance of management and independent directors, and the need for Audit Committee expertise.

In connection with its evaluation, the Committee determines whether to interview the prospective nominee and, if warranted, one or more members of the Committee, and others as appropriate, may interview prospective nominees in person. After completing this evaluation and interview, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.

We did not pay any third party a fee to assist in the process of identifying or evaluating nominees for election as Class II directors at the 2004 Annual Meeting. We did not receive any director candidates for election as Class II directors at the 2004 Annual Meeting put forward by a stockholder or group of stockholders who beneficially own more than 5 percent of our common stock.

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Submission of Stockholder Nominations to the Board of Directors

A stockholder who wishes to recommend a prospective nominee for the Board should notify the Corporate Secretary, Reliant Energy, Inc., 1000 Main Street, 12th Floor, Houston, Texas 77002. The notice should be addressed to the attention of the Corporate Secretary or any member of the Nominating & Governance Committee in care of the Corporate Secretary. The notice should include whatever supporting material the stockholder considers appropriate. The Nominating & Governance Committee will also consider whether to nominate any person nominated by a stockholder pursuant to the provisions of our bylaws relating to stockholder nominations as described in Additional Information Stockholder Proposals, below.

Stockholder Communications to the Board

Stockholders and other parties interested in communicating directly with the Chairman of the Nominating & Governance Committee, who is designated as the Lead Director, the non-management directors as a group or the Board regarding the Company may do so by writing to the Lead Director, in care of the Corporate Secretary at 1000 Main Street, 12th Floor, Houston, Texas 77002, Attn: Corporate Secretary. Instructions on how to communicate with the Board are also available on our Investor Relations website, which can be reached through a link at <http://www.reliant.com/corporate>

Additionally, under the terms of our Business Ethics Policy, anyone desiring to raise a complaint or concern regarding accounting issues or other compliance matters directly with the Audit Committee has the ability to do so by contacting Pinkerton Compliance Services at the following address:

Reliant Energy Compliance Hotline

P.M.B. 3767

Pinkerton Compliance Services

13950 Ballantyne Corporate Place

Charlotte, North Carolina 28277

Such concerns will be forwarded directly to the Chairman of the Audit Committee.

Effective March 2004, the Nominating & Governance Committee of the Board approved a process for handling letters received by the Company and addressed to non-management members of the Board. Under that process, our Corporate Secretary reviews all such correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or subcommittees thereof or that he otherwise determines requires their attention. Directors may at any time request copies of all correspondence received by the Company that is addressed to members of the Board. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of our internal audit department and handled in accordance with procedures established by the Audit Committee with respect to such matters.

Director Attendance at Annual Meetings

Although we do not have a formal policy regarding director attendance at our Annual Meeting, all of our directors attended the 2003 Annual Meeting and we expect all will be present for the 2004 Annual Meeting.

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Compensation of Directors

Annual Compensation. Each non-employee director receives an annual retainer of \$45,000 and a fee of \$2,000 for each Board and committee meeting attended. Those directors who serve on committees, other than the Audit Committee, also receive a \$5,000 committee retainer for each committee on which he or she serves. Directors on the Audit Committee receive a \$10,000 committee retainer. Beginning in the second quarter of 2004, directors will be allowed to choose to receive their annual and committee compensation in one of the following forms:

Cash.

Common stock. A director who chooses this form will receive his/her compensation in stock at the end of each quarter. In addition, a director electing common stock will receive a 25 percent premium payable in certificated restricted stock which vests following the end of the director's current term.

Restricted stock units. A director who chooses this form will receive his/her compensation plus a 25 percent premium in restricted stock units. The units attributable to the director's retainers are vested at the earlier of the director's termination of service as a Board member or the end of the current term. The premium units vest at the end of the director's current term.

2003 Equity Compensation Grants. In 2003, each incumbent non-employee director received a one-time initial stock grant of 5,000 shares of restricted stock. Upon their appointment to the Board, Pastor Caldwell and Mr. Miller also received a one-time initial stock grant of 5,000 shares of restricted stock. Each non-employee director receives an annual grant of 2,500 shares of restricted stock and 5,000 stock options.

Deferred Compensation. Directors can elect to defer all or a portion of their annual retainer and/or meeting fees.

Director Stock Ownership

Under our Corporate Governance Guidelines, within a reasonable period of time after election to the Board, each director is encouraged to own stock in the Company in an amount appropriate to his or her financial circumstances.

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Items to be Voted on by Stockholders

ITEM 1: Election of Directors

Our Board is divided into three classes having staggered terms. Our Chairman and Chief Executive Officer, Joel V. Staff, together with Kirbyjon H. Caldwell and Steven L. Miller are designated as our Class I directors. The term of office of our Class I directors expires at our 2006 Annual Meeting. The initial term of office of the Class II directors, Laree E. Perez and William L. Transier, will expire at our 2004 Annual Meeting and the initial term of office of the Class III directors, E. William Barnett and Donald J. Breeding, will expire at our 2005 Annual Meeting. Following election to the Board, each class of directors will serve for a term of three years and until their successors are elected and qualified.

Based on recommendations from our Nominating & Governance Committee, our Board has nominated its current Class II directors, Ms. Perez and Mr. Transier, for reelection to our board of directors as Class II directors. We have no reason to believe that either Ms. Perez or Mr. Transier will be unavailable for election; however, if either nominee becomes unavailable for election, our Board can name a substitute nominee and proxies will be voted for the substitute nominee pursuant to discretionary authority, unless withheld.

OUR BOARD RECOMMENDS A VOTE FOR THE CLASS II DIRECTOR NOMINEES.

We describe below the principal occupations and other information about our nominees to our Board and our incumbent members.

Nominees for Class II Directors Term Expiring 2007

Laree E. Perez

**Director since April 2002
Age 50**

Ms. Perez has served as an independent financial consultant with The Medallion Company since September 2002. From February 1996 to September 2002, she served as Vice President of Loomis, Sayles & Company, L.P.

William L. Transier

**Director since December 2002
Age 49**

Mr. Transier has served as Co-Chief Executive Officer of Endeavour International Corporation since February 2004. From October 2003 to February 2004, he served as Co-Chief Executive Officer of NSNV, Inc. and its predecessor company North Sea New Ventures, LLC. From March 1999 to April 2003, Mr. Transier served as Executive Vice President and Chief Financial Officer of Ocean Energy, Inc. From September 1998 to March 1999, he served as Executive Vice President and Chief Financial Officer of Seagull Energy Corporation. Mr. Transier also serves on the Board of Directors of Cal Dive International, Inc. and is a member of its audit committee.

Incumbent Class I Directors Term Expiring 2006

Joel V. Staff

Director since October 2002
Age 60

Mr. Staff has served as Chairman and Chief Executive Officer of the Company since April 2003. From May 2001 to May 2002, he was Executive Chairman of National-Oilwell, Inc. From July 1993 to May 2001, Mr. Staff served as Chairman, President, and Chief Executive Officer of National-Oilwell, Inc. He also serves on the Board of Directors of National-Oilwell, Inc. and Ensco International Incorporated. Mr. Staff is a member of the audit committee of Ensco International Incorporated.

