

MARATHON OIL CORP  
Form DEF 14A  
March 10, 2003

**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**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- |                                     |   |                          |  |
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| <input type="checkbox"/>            | Preliminary Proxy Statement                 | <input type="checkbox"/> | <b>Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))</b> |
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**Marathon Oil Corporation**

(Name of Registrant as Specified In Its Charter)

**[List Other Person(s) or replace with LP24 (total) if blank]**

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# **Notice of Annual Meeting of Stockholders and Proxy Statement**

**2003**

**Wednesday, April 30, 2003**

**10:00 A.M. Central Time**

Conference Center Auditorium

Marathon Oil Tower

5555 San Felipe Road

Houston, Texas 77056

*Please vote promptly either by:*

- Ø telephone,
- Ø the Internet, or
- Ø marking, signing and returning your proxy or voting instruction card.

Marathon Oil Corporation  
5555 San Felipe Road  
Houston, TX 77056

**Clarence P. Cazalot, Jr.**  
President and Chief Executive Officer

March 10, 2003

Dear Marathon Stockholder,

We will hold our 2003 annual meeting of stockholders in the Conference Center Auditorium of the Marathon Oil Tower, 5555 San Felipe Road, Houston, Texas, on Wednesday, April 30, 2003 at 10:00 A.M. Central Time.

If your shares are held of record with National City Bank, our transfer agent and registrar, we have enclosed a proxy card for your use. You may vote these shares by completing and returning the proxy card, or alternatively, calling a toll-free telephone number or using the Internet as described on the proxy card. If your shares are held by a broker or other nominee (i.e., in street name), enclosed is a voting instruction card, which you should use to vote those shares. You also have the option of voting by mail, or through the use of the telephone or Internet.

Your vote is important. We hope you will vote either by telephone, over the Internet or by marking, signing and returning your proxy or voting instruction card as soon as possible, whether or not you plan to attend the meeting.

Sincerely,

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## Notice of Annual Meeting of Stockholders

on April 30, 2003

We will hold our 2003 annual meeting of stockholders in the Conference Center Auditorium of the Marathon Oil Tower, 5555 San Felipe Road, Houston, Texas 77056 on Wednesday, April 30, 2003 at 10:00 A.M. Central Time, in order to:

- elect three Class I directors;
- approve the 2003 Incentive Compensation Plan covering key employees and non-employee directors;
- elect PricewaterhouseCoopers LLP as our independent auditors for fiscal year 2003;
- consider a stockholder proposal on submitting a rights plan to a stockholder vote, if properly presented for action at the meeting; and
- transact any other business that properly comes before the meeting.

You are entitled to vote at the meeting if you were an owner of record of Marathon Oil Corporation common stock at the close of business on March 3, 2003. If your ownership is through a broker or other intermediary, you will need to have proof of your stockholdings in order to be admitted to the meeting. A recent account statement, letter or proxy from your broker or other intermediary will suffice.

We have enclosed a copy of the Company's 2002 Annual Report to stockholders with this notice and proxy statement.

By order of the Board of Directors,

William F. Schwind, Jr.

Secretary

Dated: March 10, 2003

Marathon Oil Corporation

5555 San Felipe Road

Houston, TX 77056

## Proxy Statement

**We have sent you this proxy statement because the Board of Directors is asking you to give your proxy (that is, the authority to vote your shares) to our proxy committee so they may vote your shares on your behalf at our annual meeting of stockholders.** The members of the proxy committee are Thomas J. Usher, Clarence P. Cazalot, Jr. and John T. Mills. They will vote your shares as you instruct.

We will hold the meeting on April 30, 2003 in the Conference Center Auditorium of the Marathon Oil Tower, 5555 San Felipe Road, Houston, Texas. The proxy statement contains information about the matters being voted on and other information that may be helpful to you.

We began the mailing of the proxy statement, the proxy card and the 2002 annual report on or about March 17, 2003.

## Questions and Answers

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### .. Who may vote?

You may vote if you were a holder of Marathon Oil Corporation ( Marathon or the Company ) common stock at the close of business on March 3, 2003, which is the record date of the meeting. Each share of common stock is entitled to one vote.

### .. What may I vote on?

You may vote on:

- the election of three nominees to serve as Class I directors;
- the approval of our 2003 Incentive Compensation Plan;
- the election of PricewaterhouseCoopers LLP as our independent auditors; and
- a stockholder proposal to submit a rights plan to a stockholder vote.

### .. How does the Board recommend I vote?

The Board recommends that you vote:



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- **FOR** each of the nominees for director;
- **FOR** approval of the 2003 Incentive Compensation Plan;
- **FOR** the election of PricewaterhouseCoopers LLP as independent auditors for 2003; and
- **AGAINST** the stockholder proposal to submit a rights plan to a stockholder vote.

### “ **How do I vote?**

You may vote by telephone or over the Internet by following the instructions on the enclosed proxy card (or, if you own your shares through a broker or other intermediary, on the enclosed voting instruction card). You may also vote by marking, signing and dating the enclosed proxy card or voting instruction card, and returning it in the prepaid envelope. The proxy committee will vote your shares in accordance with your directions. If you return a proxy card but do not mark the boxes showing how you wish to vote, the proxy committee will vote your shares in accordance with the Board's recommendation on each proposal, but only if you have signed and dated the card. Unsigned proxy cards will not be voted at all. If you are a stockholder of record (that is, if you are registered on the books of our transfer agent), you may also vote in person by attending the meeting.

### “ **May I change my vote?**

If you are a stockholder of record, you may change your vote or revoke your proxy at any time before your shares are voted at the meeting by:

- voting again by telephone or over the Internet;
- sending us a proxy card dated later than your last vote;
- notifying the Secretary of Marathon in writing; or
- voting at the meeting.

**.. How many outstanding shares are there?**

At the close of business on March 3, 2003, which is the record date for the meeting, there were 309,853,561 shares of Marathon common stock outstanding.

**.. How big a vote do the proposals need in order to be adopted?**

Directors are elected by a plurality of the votes of the shares present in person at the meeting and those represented by proxy and entitled to vote; that is, those receiving the most votes are elected, even if they receive less than a majority. Each of the other proposals will be approved if it receives a majority of the votes of the shares present in person at the meeting and those represented by proxy and entitled to vote. Abstentions are counted as votes present and entitled to vote and have the same effect as votes against a proposal. Broker non-votes are not counted as either votes for or votes against a proposal. Both abstentions and broker non-votes are counted in determining that a quorum is present for the meeting.

**.. What are broker non-votes?**

The New York Stock Exchange permits brokers to vote their customers' shares on routine matters when the brokers have not received voting instructions from their customers. The election of directors and the election of independent auditors are examples of routine matters on which brokers may vote in this way. Brokers may not vote their customers' shares on non-routine matters such as the approval of the 2003 Incentive Compensation Plan, the stockholder proposal to submit a rights plan to a stockholder vote, mergers and contested proposals, unless they have received voting instructions from their customers. Non-voted shares on non-routine matters are broker non-votes.

**.. What constitutes a quorum?**

Under our by-laws, a quorum is one-third of the voting power of the outstanding shares of stock entitled to vote.

**.. Will my vote be confidential?**

All voting records which identify stockholders are kept permanently confidential except as necessary to meet legal requirements and in other limited circumstances such as proxy contests. The vote tabulators and the inspector of elections are required to execute confidentiality agreements.

**.. How will voting be conducted on other matters raised at the meeting?**

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If any matters are presented at the meeting other than the proposals on the proxy card, the proxy committee will vote on them using their best judgment. Your signed proxy card, or your telephone or Internet vote, gives them the authority to do this. Under our by-laws, notice of any matter to be presented by a stockholder for a vote at the meeting must have been received by our corporate Secretary on or after January 6, 2003 and no later than February 5, 2003, and it must have been accompanied by certain information about the stockholder presenting it. We have not received notice of any matter to be presented other than those on the proxy card.

### **When must stockholder proposals be submitted for the 2004 annual meeting?**

Stockholder proposals submitted for inclusion in our 2004 proxy statement must be received in writing by our corporate Secretary no later than 5:00 P.M. Central Time on November 18, 2003. Stockholder proposals submitted outside the process for inclusion in the proxy statement must be received from stockholders of record on or after January 2, 2004 and no later than February 1, 2004 and must be accompanied by certain information about the stockholders making the proposals, in accordance with our by-laws.

## The Board of Directors and its Committees

Marathon was originally organized in May 2001 as USX Holdco, Inc. to become a holding company for the two principal businesses of our former parent company, USX Corporation ( Old USX ). In July 2001, Old USX effected a reorganization of the ownership of its businesses in which:

- it created Marathon as its publicly owned parent holding company and transferred ownership of the businesses representing the Marathon Group to Marathon; and
- it merged into a newly formed subsidiary which survives today as United States Steel Corporation.

Upon completion of the July 2001 reorganization, USX Holdco changed its name to USX Corporation.

On December 31, 2001, we separated our businesses into two independent companies and changed our name from USX Corporation to Marathon Oil Corporation. As a result of the separation, United States Steel Corporation now conducts the business of our former U. S. Steel Group as an independent, publicly owned corporation. Marathon has continued the business of the former Marathon Group.

To accurately portray the experience and tenure of certain directors with Marathon, the report of the tenure of a director on our Board includes the director's service on the Board of Directors of Old USX.

Under our by-laws and the laws of Delaware, Marathon's state of incorporation, the business and affairs of Marathon are managed under the direction of the Board of Directors. The Board met nine times in 2002. Their attendance averaged approximately 97 percent. The Board has four principal committees, all the members of which are non-employee directors. These committees are described on this and the following pages. The table below shows the current committee memberships of each director and the number of meetings that each corresponding committee held in 2002.

### Board Committee Memberships

Director	Audit Committee	Compensation Committee	Corporate	
			Governance and Nominating Committee	Committee on Financial Policy
Charles F. Bolden, Jr.	X		X	X
David A. Daberko	X		X	X
William L. Davis	X	X		X
Shirley Ann Jackson	X*	X	X	

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Philip Lader		X	X	X
Charles R. Lee	X		X*	X
Dennis H. Reilley	X	X		X
Seth E. Schofield		X	X	X*
Douglas C. Yearley	X	X*	X	
Number of Meetings in 2002 of Corresponding Committee	7	6 <sup>(1)</sup>	4 <sup>(2)</sup>	4

\* Chair

(1) Meetings of the Compensation and Organization Committee

(2) Meetings of the Corporate Governance and Public Policy Committee

### **Audit Committee**

The Audit Committee has a written charter adopted by the Board. It is attached as Appendix A to this proxy statement. The charter requires the committee to reassess and report to the Board on the adequacy of the charter on an annual basis, which the committee did in 2002. All the members of the Audit Committee are independent (as independence is defined in Sections 303.01(B)(2)(a) and (3) of the New York Stock Exchange's listing standards, as may be modified or supplemented).

This committee is, among other things, responsible for:

- appointing, replacing, compensating and overseeing the work of the independent auditor;
- reviewing the fees proposed by the independent auditor for the coming year and approving the final fees and expenses of the independent auditors for audit services and non-audit services performed by the independent auditors for the past year;
- approving in advance all audit and non-audit services to be performed by the independent auditors in accordance with applicable law;
- separately meeting with the independent auditors, the internal auditors and management with respect to the status and results of their activities;
- reviewing with the chief executive officer, the chief financial officer, and the general counsel the Company's disclosure controls and procedures and management's conclusions about the efficacy of such disclosure controls and procedures;
- reviewing, approving and discussing with management and the independent auditors the annual and quarterly financial statements, the annual report to stockholders and the Form 10-K;
- reviewing earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- approving guidelines for the Company's hiring of former employees of the independent auditors;
- establishing procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees regarding questionable accounting or auditing matters; and
- completing an annual performance evaluation of this committee.

### **Audit Committee Financial Expert**

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Based on the attributes, education and experience requirements set forth in Section 407 of the Sarbanes-Oxley Act of 2002 and associated regulations, the Board of Directors has determined that David A. Daberko, Charles R. Lee, and Dennis H. Reilley each qualify as an Audit Committee Financial Expert. Each of these non-employee directors is independent of management.

- Mr. Daberko is currently the Chairman of the Board and Chief Executive Officer of National City Corporation. In addition to certifying the effectiveness of internal controls and procedures required by his position as CEO, Mr. Daberko's previous positions with National City required him to oversee internal accounting controls and set internal control policy. As head of bank investments, he was responsible for overseeing accounting for that area. Mr. Daberko holds a MBA in finance from Case Western Reserve University.

- Mr. Lee held positions as Senior Vice President-Finance for Penn Central Corp. and Columbia Pictures Industries Inc., and Senior Vice President of Finance with GTE Corporation. He received a MBA with distinction from the Harvard Graduate School of Business Administration.
  - Mr. Reilley is the Chairman, President and Chief Executive Officer of Praxair, Inc. In addition to certifying the effectiveness of internal controls and procedures required by his position as CEO, Mr. Reilley's experience includes serving as chair of Entergy Corporation's audit committee. He holds a BS in finance from Oklahoma State University.
- 

### Compensation Committee

The Compensation Committee is composed solely of directors who satisfy all criteria for independence under applicable law and the rules of the New York Stock Exchange and who, in the opinion of the Board, are free of any relationship that would interfere with their exercise of independent judgment as members of the committee.

This committee is, among other things, responsible for:

- making recommendations to the Board and to the boards of subsidiaries on all matters of policy and procedures relating to executive compensation;
  - establishing the chief executive officer's compensation level based on the Board's performance evaluation of the chief executive officer;
  - approving the compensation of the other executive officers, and reviewing the succession plan relating to positions held by the other executive officers;
  - recommending to the Board and administering the incentive compensation plans and equity-based plans of the Company;
  - certifying the achievement of performance levels under the Company's incentive compensation plans; and
  - evaluating its performance on an annual basis and developing criteria for such evaluation.
- 

### Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is composed solely of independent directors, and its primary purpose is to discharge the Board's responsibility related to public policy matters, the development and implementation of a set of corporate governance principles, the identification of individuals qualified to become board members, and the review of the qualifications and make-up of the Board membership.



The committee is, among other things, responsible for:

- reviewing and making recommendations to the Board concerning the appropriate size and composition of the Board, including candidates for election or re-election as directors, the criteria to be used for the selection of candidates for election as directors, the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board, the composition and functions of the Board committees, and all matters relating to the development and effective functioning of the Board;
- considering and recruiting candidates to fill positions on the Board;
- considering nominees recommended by stockholders for election as Directors;

- reviewing and making recommendations to the Board of each Board committee's membership and committee chairpersons including, without limitation, a determination of whether one or more Audit Committee members qualifies as an audit committee financial expert in accordance with applicable law;
- making recommendations to the Board concerning director compensation;
- assessing and recommending overall corporate governance practices;
- establishing the process and administering the evaluation of the Board;
- reviewing public issues identified by management and the Company's efforts in addressing these public issues through research, analysis, lobbying efforts and participation in business and government programs;
- reviewing and approving codes of conduct applicable to directors, officers and employees; and
- evaluating its performance on an annual basis and developing criteria for such evaluation.

#### **Code of Ethics for Senior Financial Officers**

Pursuant to Section 406 of the Sarbanes-Oxley Act of 2002 and its associated regulations, the Corporate Governance and Nominating Committee approved and adopted a Code of Ethics for Senior Financial Officers, which is attached to this proxy statement as Appendix B. As required, this code applies to the Company's principal executive officer, the principal financial officer, the principal accounting officer or controller, or persons performing similar functions, and mandates that these officers, among other things:

- act with honesty and integrity, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- provide full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company;
- comply with applicable governmental laws, rules and regulations; and
- promote the prompt internal reporting of violations of this Code of Ethics to the chair of the Audit Committee of the Board of Directors and to the appropriate person or persons identified in the Company's Code of Business Conduct.

The code further provides that any violation will be subject to appropriate discipline, up to and including dismissal from the Company and prosecution under the law.

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#### **Committee on Financial Policy**

The Committee on Financial Policy provides oversight with respect to the appropriate capital structure and financial policies of Marathon. Its key responsibility in that role is to make recommendations to the Board concerning dividends. The Board has also delegated to the committee, among other things, the authority to:

- approve financings by Marathon (except financings which involve the issuance of common stock), including the recommendation of action to subsidiaries, partnerships and joint ventures;
- authorize loans to outside entities, guarantees by Marathon of the credit of others, and other uses of Marathon credit; and
- evaluate its performance on an annual basis and develop criteria for the evaluation.

## Compensation of Directors

Our by-laws require that each non-employee director be paid allowances and attendance fees as the Board may from time to time determine. Directors who are employees of Marathon receive no compensation for their service on the Board. Except for our chairman, we pay our non-employee directors as follows:

Annual Retainer	\$60,000
Committee Membership Fee	\$5,000 (\$6,000 for committee chair)
Meeting Fee (for each Board or committee meeting)	\$2,000

In addition to the above fees, we also paid our Chairman of the Board, Mr. Usher, a chairman's fee of \$25,000 in 2002.

In 2002, we had continuing obligations to Mr. Usher pursuant to a Completion and Retention Agreement entered into in connection with the separation of Marathon and United States Steel. Under that agreement, Mr. Usher received a \$6 million separation completion bonus and a grant of 350,000 phantom stock appreciation rights at an exercise price of \$29.69 in 2002.

Also in 2002, Mr. Usher received grants of an additional 20,160 shares of restricted stock under the 1990 Stock Plan. In view of the separation of Marathon and United States Steel, Mr. Usher received a cash payment of \$3,778,164 as consideration for the cancellation of unvested performance-based restricted stock, including the 20,160 shares previously mentioned, under the 1990 Stock Plan and in lieu of any future awards to him under that plan. Similar cancellation payments were made to certain other former officers of Marathon who transferred employment to United States Steel at the time of the separation. The share price used in determining the cancellation payments was \$21.06.

The Completion and Retention Agreement also provides that, if Mr. Usher elects to receive his non-qualified pension as a lump sum, the lump sum will be calculated using the interest rates and mortality tables in effect on December 31, 2001. The agreement further provides for payments of salary and, subject to certain performance measures, a retention bonus payable by United States Steel for Mr. Usher's service as an executive officer of United States Steel.

Effective as of January 1, 2003, the Board approved a restructuring of Mr. Usher's compensation as the Chairman of the Board based upon a competitive compensation survey prepared by an independent consultant. In addition to the \$60,000 annual retainer fee paid to non-employee directors, the Completion and Retention Agreement was amended to provide that Mr. Usher will be paid an annual chairman's fee of \$240,000, with such annual chairman's fee to be in lieu of all other fees otherwise paid to non-employee directors of the Board.