

STERLING CHEMICALS INC

Form DEF 14A

March 29, 2005

**Table of Contents**

OMB APPROVAL

OMB Number:	3235-0059
Expires:	February 28, 2006
Estimated average burden hours per response	12.75

**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

**STERLING CHEMICALS, INC.**

\_\_\_\_\_  
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

---

5) Total fee paid:

---

o Fee paid previously with preliminary materials.

---

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

---

2) Form, Schedule or Registration Statement No.:

---

3) Filing Party:

---

4) Date Filed:

---

SEC 1913 (02-02)

**Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

---

**Table of Contents**

March 29, 2005

Dear Stockholders and Noteholders:

We are pleased to invite you to attend the 2005 Annual Meeting of Stockholders of Sterling Chemicals, Inc. to be held at 10:00 a.m. (New York time) on Friday, April 15, 2005, at the offices of Weil, Gotshal & Manges LLP located at 767 Fifth Avenue, New York, New York 10153. A notice of the meeting, proxy statement and form of proxy are enclosed with this letter. During the meeting we will report on our operations during 2004 and our plans for 2005. Representatives from our Board of Directors and our management team will be present to respond to appropriate questions from stockholders. We are also pleased to invite the holders of our 10% Senior Secured Notes due 2007 to attend the 2005 Annual Meeting for the purpose of electing their representative to our Board.

We hope that you will be able to attend the meeting. If you are unable to attend the meeting in person, it is very important that your shares or notes be represented, and we request that you complete, date, sign and return the enclosed proxy at your earliest convenience. If you choose to attend the meeting in person, you may, of course, revoke your proxy and cast your votes personally at the meeting. We look forward to seeing you at the meeting.

Thank you for your ongoing support and continued interest in Sterling Chemicals, Inc.

Sincerely,

/s/ Richard K. Crump  
Richard K. Crump  
*President and Chief Executive Officer*

---

Notice Of Annual Meeting Of Stockholders

General Information

Arrangements Regarding Nomination and Election of Directors

Proposals on Which You May Vote

Voting In Person Or By Proxy

Solicitation of Proxies and Expenses

Proposals By Stockholders

Stockholder Communications with the Board

Director Nominations and Qualifications

Annual Report and Available Information

Election of Directors

Preferred Stock Nominees

General Nominees

Noteholders Nominee

Director Compensation

Independence

Board Committees

Ratification of Appointment of Independent Registered Accounting Firm

Approval of Proposed Charter Amendment

Additional Proposals

Executive Officers Of The Company

Compensation Committee Report On Executive Compensation

Executive Compensation And Other Information

Performance Graph

Security Ownership of Principal Stockholders and Management

Certain Transactions

Section 16(a) Beneficial Ownership Reporting Compliance

Stockholder Proposals For Next Year's Annual Meeting

---

**Table of Contents**

Sterling Chemicals, Inc.  
333 Clay Street, Suite 3600  
Houston, Texas 77002-4312  
(713) 650-3700

Notice Of Annual Meeting Of Stockholders  
To Be Held April 15, 2005

To Our Stockholders and Noteholders:

You are cordially invited to attend our Annual Meeting of Stockholders to be held on the 25<sup>th</sup> Floor of the offices of Weil, Gotshal & Manges LLP located at 767 Fifth Avenue, New York, New York at 10:00 a.m. (New York time) on Friday, April 15, 2005. At the Annual Meeting, the following proposals will be presented for consideration:

The election of eight directors, each of whom will hold office until our Annual Meeting of Stockholders in 2006 and until his successor has been duly elected and qualified.

The ratification and approval of the appointment of Deloitte & Touche LLP as our independent registered accounting firm for the fiscal year ending December 31, 2005.

The consideration and approval of a proposal to amend our Amended and Restated Certificate of Incorporation to increase the number of our total authorized shares of capital stock from 10,125,000 to 20,125,000 and to increase the number of our authorized shares of Common Stock from 10,000,000 to 20,000,000.

You are entitled to vote at the meeting for some of our director nominees, on the proposal to ratify and approve the appointment of Deloitte & Touche LLP as our independent registered accounting firm for the fiscal year ending December 31, 2005 and on the proposal to amend our Amended and Restated Certificate of Incorporation if you were the holder of record of any shares of our Common Stock or Series A Convertible Preferred Stock at the close of business on March 4, 2005. In addition, if you were the holder of record of any of our 10% Senior Secured Notes at the close of business on March 4, 2005, you are entitled to vote at the meeting on the election of the noteholders representative to our Board of Directors.

Our Board of Directors recommends that our stockholders vote FOR each nominated director for whom they are entitled to vote, FOR the ratification and approval of the appointment of Deloitte & Touche LLP as our independent registered accounting firm for the fiscal year ending December 31, 2005 and FOR the proposal to amend our Amended and Restated Certificate of Incorporation. Our stockholders may also be asked to consider and act upon any other business that may properly come before the Annual Meeting or any adjournment or postponement thereof.

Your vote is very important. If you do not expect to attend the Annual Meeting in person, please sign, date and complete the enclosed proxy and return it without delay in the enclosed envelope, which requires no postage if mailed in the United States. Mailing your completed proxy will not prevent you from later revoking that proxy and voting in person at the Annual Meeting. If you want to vote at the Annual Meeting but your shares or notes are held by an intermediary, such as a broker or bank, you will need to obtain proof of ownership of your shares or notes as of March 4, 2005 from the intermediary.

March 29, 2005

By Order of the Board of Directors

/s/ Kenneth M. Hale  
Kenneth M. Hale  
*Corporate Secretary*

---

**Table of Contents**

Sterling Chemicals, Inc.  
333 Clay Street, Suite 3600  
Houston, Texas 77002-4312  
(713) 650-3700

Proxy Statement For  
Annual Meeting Of Stockholders  
To Be Held April 15, 2005

General Information

*Purpose of this Proxy Statement*

**We have prepared this Proxy Statement to solicit proxies on behalf of our Board of Directors for use at our 2005 Annual Meeting of Stockholders and any adjournment or postponement thereof. We are also using this Proxy Statement to solicit proxies on behalf of the Trustee for our 10% Senior Secured Notes due 2007 (Notes) in connection with the election of their representative to our Board at the Annual Meeting.** We intend to mail this Proxy Statement and accompanying proxy card to all of our stockholders and all of the holders of our Notes entitled to vote at the Annual Meeting on or about March 29, 2005.

*Time and Place of Annual Meeting*

The Annual Meeting will be held on Friday, April 15, 2005, at 10:00 a.m. (New York time) on the 25<sup>th</sup> Floor of the offices of Weil, Gotshal & Manges LLP located at 767 Fifth Avenue, New York, New York.

*Admission Rules*

Only stockholders and holders of Notes of record as of March 4, 2005 and their accompanied guests, or the holders of their valid proxies, will be permitted to attend the Annual Meeting. Each person attending the Annual Meeting will be asked to present valid governmental-issued picture identification, such as a driver's license or a passport, before being admitted to the meeting. In addition, stockholders or noteholders who hold their shares or Notes through a broker or nominee (*i.e.*, in street name) should provide proof of their beneficial ownership as of March 4, 2005, such as a brokerage statement showing their ownership of shares or Notes as of that date. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting and attendees will be subject to security inspections.

*Lists of Stockholders and Noteholders*

Lists of our stockholders and the holders of our Notes who are entitled to vote at the Annual Meeting will be available for inspection by any stockholder present at the Annual Meeting and, for ten days prior to the Annual Meeting, by any stockholder, for purposes germane to the meeting, at our offices located at 333 Clay Street, Suite 3600, Houston, Texas 77002 and at the offices of Weil, Gotshal & Manges LLP in New York, New York. Any inspection of these lists prior to the Annual Meeting must be conducted between 9:00 a.m. and 4:30 p.m. (local time). Please contact our Corporate Secretary before going to conduct any inspection prior to the Annual Meeting.

*Inspector of Election*

Our Board of Directors and the Trustee for the Notes have each appointed Katherine Holdsworth, our Assistant Secretary, as the inspector of election. The inspector of election will separately calculate affirmative and negative



votes, abstentions and broker non-votes for each of the proposals.

---

**Table of Contents**

Arrangements Regarding Nomination and Election of Directors

The holders of our Series A Convertible Preferred Stock ( Preferred Stock ), voting separately as a class, are entitled to elect a percentage of our directors determined by the aggregate amount of shares of our Preferred Stock and Common Stock beneficially owned by Resurgence Asset Management, L.L.C. ( Resurgence ) and certain permitted transferees. Currently, the holders of our Preferred Stock are entitled to elect a majority of our directors. Messrs. Byron J. Haney, Philip M. Sivin, Robert T. Symington and Keith R. Whittaker are the nominees for election by the holders of shares of our Preferred Stock (the Preferred Stock Nominees ).

Under our Certificate of Incorporation, the holders of our Notes have the exclusive right, voting separately as a class, to elect one of our directors until our Notes have been paid in full. At the time we issued our Notes in December of 2002, the holders of our Notes appointed Mr. John W. Gildea as their representative, and he is also the nominee for election by the holders of our Notes at the Annual Meeting (the Noteholders Nominee ).

With the exception of the Preferred Stock Nominees and the Noteholders Nominee, our directors are elected by the holders of our Preferred Stock and Common Stock voting together as a single class. Messrs. Richard K. Crump and Marc S. Kirschner and Dr. Peter Ting Kai Wu are the nominees for election by the holders of our Preferred Stock and Common Stock, voting together as a single class (the General Nominees ).

Proposals on Which You May Vote

If you owned any shares of our Preferred Stock or Common Stock on March 4, 2005, as reflected in our stock register, or if you owned any of our Notes on March 4, 2005, as reflected in the register maintained by the Trustee for the Notes, you may vote at the Annual Meeting on the following matters:

Securities Held of Record on March 4, 2005	Proposals on Which You May Vote
Preferred Stock	Preferred Stock Nominees for Director General Nominees for Director Approval of Appointment of Deloitte & Touche LLP Approval of Amendment of our Amended and Restated Certificate of Incorporation
Common Stock	General Nominees for Director Approval of Appointment of Deloitte & Touche LLP Approval of Amendment of our Amended and Restated Certificate of Incorporation
Notes	Noteholders Nominee for Director



**Table of Contents**

Voting In Person Or By Proxy

*How Do I Vote?*

You may vote in person at the Annual Meeting or you may give us your proxy. We recommend you vote by proxy even if you plan to attend the Annual Meeting you can always change your vote at the Annual Meeting. Our stockholders can vote by proxy over the telephone by calling a toll-free number, electronically by using the Internet or through the mail by signing and returning the enclosed proxy card. The telephone and Internet voting procedures have been set up for the convenience of our stockholders and are designed to authenticate your identity, allow you to give voting instructions and confirm that your voting instructions have been properly recorded, and will be available 24 hours a day and will close at 11:59 p.m. (New York time) on April 14, 2005. If you are one of our stockholders and would like to vote by telephone or by using the Internet, please refer to the specific instructions set forth on the enclosed proxy card. Our noteholders can vote by signing and returning the enclosed proxy card, and may also be eligible to vote over the telephone by calling a toll-free number or electronically by using the Internet if the noteholder's broker (or its designee) makes such voting facilities available. These telephone or Internet voting facilities, if any, will be described in materials sent by, and subject to such restrictions as are imposed by, the noteholder's broker (or its designee).

*How Are My Shares of Preferred Stock Voted If I Give You My Proxy?*

If you give us your proxy to vote your shares of Preferred Stock, we will be authorized to vote your shares of Preferred Stock, but only in the manner you direct. You may direct us to vote for all, some or none of the Preferred Stock Nominees, and all, some or none of the General Nominees. You may also direct us to vote your shares of Preferred Stock for or against the proposal to ratify and approve the appointment of Deloitte & Touche LLP (*Deloitte & Touche*) as our independent registered accounting firm for the fiscal year ending December 31, 2005 (*Fiscal 2005*) and for or against the proposal to amend our Amended and Restated Certificate of Incorporation to increase the number of our total authorized shares of capital stock from 10,125,000 to 20,125,000 and to increase the number of our authorized shares of Common Stock from 10,000,000 to 20,000,000 (the *Proposed Charter Amendment*). You may also abstain from voting.

If you give us your proxy to vote your shares of Preferred Stock and do not withhold authority to vote for the election of any of the Preferred Stock Nominees or General Nominees, all of your shares of Preferred Stock will be voted for the election of each Preferred Stock Nominee and General Nominee. If you withhold authority to vote your shares of Preferred Stock for any Preferred Stock Nominee or General Nominee, none of your shares of Preferred Stock will be voted for that candidate, but all of your shares of Preferred Stock will be voted for the election of each Preferred Stock Nominee and General Nominee for whom you have not withheld authority to vote.

If you give us your proxy to vote your shares of Preferred Stock but do not specify how you want your shares voted, your shares of Preferred Stock will be voted in favor of each of the Preferred Stock Nominees and General Nominees, in favor of the proposal to ratify and approve the appointment of Deloitte & Touche as our independent registered accounting firm for Fiscal 2005 and in favor of the Proposed Charter Amendment.

If you give us your proxy to vote your shares of Preferred Stock and any additional business properly comes before our stockholders for a vote at the Annual Meeting, the persons named in the enclosed proxy card will vote your shares of Preferred Stock on those matters as instructed by our Board or, in the absence of any express instructions, in accordance with their own best judgment. As of the date of this Proxy

**Table of Contents**

Statement, we were not aware of any other matter to be raised at the Annual Meeting.

*How Are My Shares of Common Stock Voted If I Give You My Proxy?*

If you give us your proxy to vote your shares of Common Stock, we will be authorized to vote your shares of Common Stock, but only in the manner you direct. You may direct us to vote for all, some or none of the General Nominees. You may also direct us to vote your shares of Common Stock for or against the proposal to ratify and approve the appointment of Deloitte & Touche as our independent registered accounting firm for Fiscal 2005 and for or against the Proposed Charter Amendment. You may also abstain from voting.

If you give us your proxy to vote your shares of Common Stock and do not withhold authority to vote for the election of any of the General Nominees, all of your shares of Common Stock will be voted for the election of each General Nominee. If you withhold authority to vote your shares of Common Stock for any General Nominee, none of your shares of Common Stock will be voted for that candidate, but all of your shares of Common Stock will be voted for the election of each General Nominee for whom you have not withheld authority to vote.

If you give us your proxy to vote your shares of Common Stock but do not specify how you want your shares voted, your shares of Common Stock will be voted in favor of each of the General Nominees, in favor of the proposal to ratify and approve the appointment of Deloitte & Touche as our independent registered accounting firm for Fiscal 2005 and in favor of the Proposed Charter Amendment.

If you give us your proxy to vote your shares of Common Stock and any additional business properly comes before our stockholders for a vote at the Annual Meeting, the persons named in the enclosed proxy card will vote your shares of Common Stock on those matters as instructed by our Board or, in the absence of any express instructions, in accordance with their own best judgment. As of the date of this Proxy Statement, we were not aware of any other matter to be raised at the Annual Meeting.

*How Are My Notes Voted If I Give You My Proxy?*

If you give us your proxy to vote your Notes, we will be authorized to vote your Notes, but only in the manner you direct. You may direct us to vote for or against the Noteholders Nominee, or abstain from voting. If you give us your proxy but do not specify how you want your Notes voted, your Notes will be voted for the election of the Noteholders Nominee.

*What If I Change My Mind After I Give You My Proxy?*

You may revoke your proxy at any time before your shares or Notes are voted at the Annual Meeting by providing us with either a new proxy with a later date (by any method available for giving your original proxy) or by sending us a written notice of your desire to revoke your proxy at the following address: Sterling Chemicals, Inc., 333 Clay Street, Suite 3600, Houston, Texas 77002; Attention: Corporate Secretary. You may also revoke your proxy at any time prior to your shares or Notes having been voted by attending the Annual Meeting in person and notifying the inspector of election of your desire to revoke your proxy. However, your proxy will not automatically be revoked merely because you attend the Annual Meeting.

*Why Did I Receive More Than One Proxy Card?*

You may receive more than one proxy or voting card depending on how you hold your shares or Notes and the types of shares or Notes you own. If you hold your shares or Notes through someone else, such as a broker or a bank, you may receive materials from them asking you how you want your shares or Notes voted.



## **Table of Contents**

### *What Happens if a Nominee Becomes Unavailable?*

If any of our director candidates becomes unavailable for any reason before the election, we may reduce the number of directors serving on our Board or a substitute candidate may be designated. We have no reason to believe that any of our director candidates will be unavailable. If a substitute candidate is designated for any of the Preferred Stock Nominees or the General Nominees, the persons named in the enclosed proxy card will vote your shares for such substitute if they are instructed to do so by our Board or, if our Board does not do so, in accordance with their own best judgment. If a substitute candidate is designated for the Noteholders Nominee, the persons named in the enclosed proxy card will vote your Notes for such substitute if they are instructed to do so by the Trustee for the Notes or, if the Trustee does not do so, they will abstain from voting.

### *What if My Shares or Notes Are Held In Someone Else's Name?*

If you want to vote at the Annual Meeting but your shares or Notes are held by an intermediary, such as a broker or bank, you will need to obtain proof of ownership of your shares or Notes as of March 4, 2005, or obtain a proxy to vote your shares or Notes from the intermediary.

## Solicitation of Proxies and Expenses

We are asking for your proxy on behalf of our Board or, in the case of our Noteholders, on behalf of the Trustee for the Notes. We will bear the entire cost of preparing, printing and soliciting proxies. We will send proxy solicitation materials to all of our stockholders and all holders of our Notes of record as of March 4, 2005, and to all intermediaries, such as brokers and banks, that held any of our shares or Notes on that date on behalf of others. These intermediaries will then forward solicitation materials to the beneficial owners of our shares and Notes and we will reimburse them for their reasonable forwarding expenses. Our directors, officers and employees may also solicit proxies in person or by telephone.

## Proposals By Stockholders

Our Board of Directors does not intend to bring any other matters before the Annual Meeting and has not been informed that any other matters are to be presented by others. Our Bylaws contain several requirements that must be satisfied in order for any of our stockholders to bring a proposal before one of our annual meetings, including a requirement of delivering proper advance notice to us. Stockholders are advised to review our Bylaws if they intend to present a proposal at any of our annual meetings. Holders of our Notes are not permitted to bring any proposals before one of our annual meetings other than the election of the Noteholders Nominee.

## Stockholder Communications with the Board

Stockholders may contact our Board of Directors or any of its members by the following means:

*By E-mail:* khale@sterlingchemicals.com

*By Mail:* Sterling Chemicals, Inc.  
Board of Directors

Attention: Corporate Secretary  
333 Clay Street, Suite 3600  
Houston, Texas 77002



**Table of Contents**

Stockholders should clearly specify in each communication the name of the individual director or group of directors to whom the communication is addressed. Stockholder communications are initially delivered directly to our Corporate Secretary, who will promptly forward such communications to the specified directors or, if no particular directors are specified, to our entire Board. Stockholders wishing to submit proposals for inclusion in the proxy statement relating to our 2006 annual meeting of stockholders should follow the procedures specified below under the heading

Stockholder Proposals for Next Year's Annual Meeting. Stockholders wishing to nominate directors for election at our 2006 annual meeting of stockholders should follow the procedures specified below under the heading Director Nominations and Qualifications.

Director Nominations and Qualifications

Our Corporate Governance Committee will, in accordance with its written charter and subject to the terms of our Certificate of Incorporation and Bylaws, review candidates recommended by our stockholders for positions on our Board of Directors. Our Bylaws provide that any stockholder entitled to vote for the election of directors at a meeting of stockholders who satisfies the eligibility requirements (if any) set forth in our Certificate of Incorporation, and who complies with the procedures set forth in our Certificate of Incorporation and Bylaws, may nominate persons for election to our Board of Directors, subject to any conditions, restrictions and limitations imposed by our Certificate of Incorporation or Bylaws. These procedures include a requirement that our Corporate Secretary receive timely written notice of the nomination, which, for our 2006 annual meeting of stockholders, means that the nomination must be received on or after November 16, 2005 but no later than January 15, 2006. Any notice of nomination must include, in addition to any other information or matters required by our Certificate of Incorporation or Bylaws, the following:

- the name and address of the stockholder submitting the nomination, as they appear on our books;
- the nominating stockholder's principal occupation, business and residence addresses and telephone numbers;
- the number of shares of each class of our stock owned of record or beneficially by the nominating stockholder;
- the dates upon which the nominating stockholder acquired such shares and documentary support for any claims of beneficial ownership;
- the exact name of the nominee and such person's age, principal occupation, business and residence addresses and telephone numbers;
- the number of shares of each class of our stock (if any) owned directly or indirectly by the nominee;
- the nominee's written acceptance of such nomination, consent to being named in the proxy statement as a nominee and statement of intention to serve as a director if elected; and
- any other information regarding the nominee that would be required to be included in a proxy statement pursuant to rules of the Securities and Exchange Commission.

Nominations of directors may also be made by our Board of Directors or as otherwise provided in our Certificate of Incorporation, the Designation of Preferences, Rights and Limitations for our

**Table of Contents**

Preferred Stock or our Bylaws. In determining whether it will recommend or support a candidate for a position on our Board of Directors, our Corporate Governance Committee considers those matters it deems relevant, which may include, but are not limited to, integrity, judgment, business specialization, technical skills, diversity, independence, potential conflicts of interest and the present needs of our Board of Directors. Our Corporate Governance Committee also takes into account any restrictions, requirements or limitations contained in our Certificate of Incorporation, the Designation of Preferences, Rights and Limitations for our Preferred Stock or our Bylaws, or any other agreement to which we are a party.

Annual Report and Available Information

Our annual report on Form 10-K (including financial statements and the financial statement schedules but without exhibits) for our fiscal year ended December 31, 2004 (our Form 10-K ), including financial statements, accompanies this Proxy Statement but does not constitute a part of the proxy solicitation materials. **We will furnish additional copies of our Form 10-K, without charge, to any person whose vote is solicited by this Proxy Statement upon written request to the following address: Sterling Chemicals, Inc., 333 Clay Street, Suite 3600, Houston, Texas 77002; Attention: Chief Financial Officer.** In addition, upon written request, we will furnish a copy of any exhibit to our Form 10-K to any person whose vote is solicited by this Proxy Statement upon payment of our reasonable expenses incurred in connection with providing the copy of the exhibit.

**Table of Contents**

Election of Directors  
(Item 1 on the Proxy Card)

Our Board of Directors oversees our management, reviews our long-term strategic plans and exercises direct decision making authority in key areas. All of our director candidates currently serve on our Board. With the exception of Richard K. Crump, our President and Chief Executive Officer, we do not employ any of our current directors or any of our director candidates. Only non-employee directors are eligible to serve on our Audit Committee, our Compensation Committee and our Corporate Governance Committee. Each of our directors is elected annually to serve until our next annual meeting and until his or her successor is duly elected and qualified. Mr. Crump was originally appointed to our Board in December of 2001. Messrs. Gildea, Haney, Kirschner, Symington and Whittaker were all originally appointed to our Board on December 19, 2002. Dr. Peter Ting Kai Wu was originally appointed as one of our directors on March 12, 2004 to fill a pre-existing vacancy on our Board and Mr. Philip M. Sivin was appointed to our Board by the holders of our Preferred Stock on July 28, 2004 to fill a vacancy in a seat previously held by a designee of our Preferred Stock holders. Mr. Thomas P. Krasner currently serves as one of our directors as the designee of the Unsecured Creditors Committee in our prior bankruptcy proceedings. However, under our Certificate of Incorporation, Mr. Krasner's term as a director expires at the time of the Annual Meeting and he will not be one of our directors after the Annual Meeting.

Our Board held seven meetings in 2004. On average, our directors attended approximately 81% of the meetings of our Board or any of our committees on which they served. Our only directors who attended less than 75% of the meetings of our Board and all committees on which they served were James B. Rubin, who did not attend any meetings in 2004 prior to the time he no longer served on our Board, and Robert T. Symington, who attended approximately 63% of such meetings. We do not have a specific policy regarding attendance by directors at annual meetings of our stockholders, but all of our directors are encouraged to attend if available.

As discussed above in Arrangements Regarding Nomination and Election of Directors, the holders of our Preferred Stock, voting separately as a class, are currently entitled to elect a majority of our directors, and the holders of our Notes, voting separately as a class, are currently entitled to elect one of our directors. All of our remaining directors are elected by the holders of our Preferred Stock and Common Stock, voting together as a single class. The procedures for these separate votes by the holders of our Preferred Stock, the holders of our Preferred Stock and our Common Stock (as a single class) and the holders of our Notes, together with information about the candidates for the relevant election, is presented below under the headings Preferred Stock Nominees, General Nominees and Noteholders Nominee, respectively.

**Table of Contents**

Preferred Stock Nominees

*Who May Vote*

If you owned any shares of our Preferred Stock on March 4, 2005, as reflected in our stock register, you may vote in the election for the Preferred Stock Nominees. Our shares of Common Stock and our Notes do not vote in the election for the Preferred Stock Nominees.

*Outstanding Shares*

On March 4, 2005, there were 2,993,464 shares of our Preferred Stock outstanding (currently convertible into 2,993,464 shares of our Common Stock at the option of the holders), none of which were owned by us or any of our subsidiaries.

*Quorum*

In order to conduct the election for the Preferred Stock Nominees, we must have a quorum. This means that we must have at least a majority of the shares of our Preferred Stock represented at the Annual Meeting, either in person or by proxy. Any shares of Preferred Stock owned by us or by any of our subsidiaries are not counted for purposes of determining whether a quorum is present. Shares of our Preferred Stock held by intermediaries that are voted for at least one matter at the Annual Meeting are counted as being present for the election for the Preferred Stock Nominees, even if the beneficial owner's discretion has been withheld for voting on some or all of the other matters (commonly referred to as a broker non-vote).

*Votes Needed*

Each share of our Preferred Stock has the right to cast 1,000 votes for each of the Preferred Stock Nominees. A Preferred Stock Nominee is elected to our Board if he receives the favorable vote of a plurality of the votes cast by the shares of our Preferred Stock that are entitled to vote and are present at the Annual Meeting, either in person or by proxy. Under this format, abstentions and broker non-votes will not affect the outcome of the election.

*Information about each of the Preferred Stock Nominees is provided below.*

**Our Board of Directors recommends that the holders of shares of our Preferred Stock vote FOR the election to our Board of each of the following candidates:**

*Byron J. Haney*  
Age 44  
Director Since December 2002

Mr. Haney is a Managing Director of Resurgence Asset Management, L.L.C., which beneficially owns a substantial majority of the voting power of our securities. Mr. Haney joined Resurgence in 1994. Mr. Haney also currently serves as a member of the Board of Directors of Levitz Home Furnishings, Inc. and RDA Sterling Holdings Corporation, and as an Executive Officer and member of the Board of Directors of First Commercial Credit Corp.



**Table of Contents**

*Philip M. Sivin*

Age 33

Director Since July 2004

Mr. Sivin is a Vice President of Resurgence Asset Management, L.L.C., which beneficially owns a substantial majority of the voting power of our securities, and Senior Vice President and General Counsel of M.D. Sass Investors Services, Inc. and M.D. Sass Associates, Inc. Mr. Sivin joined Resurgence in 2004. Prior to joining Resurgence and M.D. Sass, Mr. Sivin was an attorney at Sullivan & Cromwell in New York.

*Robert T. Symington*

Age 41

Director Since December 2002

Mr. Symington is a Managing Director of Resurgence Asset Management, L.L.C., which beneficially owns a substantial majority of the voting power of our securities. Mr. Symington joined Resurgence in 1992. Mr. Symington also currently serves as a member of the Board of Directors of Levitz Home Furnishings, Inc. and Furniture.com, Inc.

*Keith R. Whittaker*

Age 32

Director Since December 2002

Mr. Whittaker is a Vice President at Resurgence Asset Management, L.L.C., which beneficially owns a substantial majority of the voting power of our securities. Mr. Whittaker joined Resurgence in 2001. Mr. Whittaker was formerly with Triarc Companies, Inc. and Bear Stearns & Co. Mr. Whittaker also currently serves as a member of the Board of Directors of RDA Sterling Holdings Corporation.

**Table of Contents**

General Nominees

*Who May Vote*

If you owned any shares of our Preferred Stock or Common Stock on March 4, 2005, as reflected in our stock register, you may vote in the election for the General Nominees. Our Notes do not vote in the election for the General Nominees.

*Outstanding Shares*

On March 4, 2005, there were 2,993,464 shares of our Preferred Stock (currently convertible into 2,993,464 shares of our Common Stock at the option of the holders) and 2,825,000 shares of our Common Stock outstanding, none of which were owned by us or any of our subsidiaries.

*Quorum*

In order to conduct the vote for the General Nominees, we must have a quorum. This means that we must have at least a majority of the voting power of our outstanding shares of Preferred Stock and Common Stock represented at the Annual Meeting, either in person or by proxy.

In the election for the General Nominees, our shares of Preferred Stock and Common Stock vote together as a single class. For purposes of class voting, each share of our Common Stock has the right to one vote and each share of our Preferred Stock has the right to one vote for each share of our Common Stock into which such share of Preferred Stock is convertible on the record date for such vote. Each share of our Preferred Stock was convertible into 1,000 shares of our Common Stock on the record date for the election of the General Nominees, which means that each share of our Preferred Stock that is represented at the Annual Meeting is the equivalent of 1,000 shares of our Common Stock being represented at the Annual Meeting for purposes of determining whether a quorum is present.

Any shares owned by us or by any of our subsidiaries are not counted for purposes of determining whether a quorum is present. Shares of our stock held by intermediaries that are voted for at least one matter at the Annual Meeting are counted as being present for the election of the General Nominees, even if the beneficial owner's discretion has been withheld for voting on some or all of the other matters (commonly referred to as a "broker non-vote").

*Votes Needed*

Each share of our Common Stock has the right to cast one vote for each of the General Nominees and each share of our Preferred Stock has the right to cast 1,000 votes for each of the General Nominees. A General Nominee is elected to our Board if he receives the favorable vote of a plurality of the votes cast by the shares of our Preferred Stock and Common Stock that are entitled to vote and are present at the Annual Meeting, either in person or by proxy. Under this format, abstentions and broker non-votes will not affect the outcome of the election.

**Table of Contents**

*Information about each of the General Nominees is provided below.*

**Our Board of Directors recommends that the holders of shares of our Preferred Stock and Common Stock vote FOR the election to our Board of each of the following candidates:**

*Richard K. Crump*  
Age 58  
Director Since December 2001

Mr. Crump has served as our President and Chief Executive Officer since January of 2003. Prior to that time, Mr. Crump served as our Co-Chief Executive Officer from December of 2001 through January of 2003, our Executive Vice President Operations from May of 2000 through December of 2001, our Vice President Strategic Planning from December of 1996 through May of 2000, our Vice President Commercial from October of 1991 through December 1, 1996 and our Director Commercial from August of 1986 through October of 1991. Prior to joining us, Mr. Crump was Vice President of Sales for Rammhorn Marketing from 1984 through August of 1986 and Vice President of Materials Management for El Paso Products Company from 1976 through 1983.

*Marc S. Kirschner*  
Age 62  
Director Since December 2002

Mr. Kirschner is a Managing Director and General Counsel of Resurgence Asset Management, L.L.C., which beneficially owns a substantial majority of the voting power of our securities. Mr. Kirschner joined Resurgence in 2001. Prior to joining Resurgence, Mr. Kirschner headed the Business Practice Group and the Bankruptcy/Restructuring Practice in the New York office of the law firm Jones, Day, Reavis & Pogue. Mr. Kirschner also currently serves as a member of the Board of Directors of Levitz Home Furnishings, Inc. and RDA Sterling Holdings Corporation.

*Dr. Peter Ting Kai Wu*  
Age 67  
Director Since March 2004

Dr. Wu has served as Vice Chairman and Chief Executive Officer of Continental Carbon Company, a Houston, Texas based subsidiary of China Synthetic Rubber Corporation, since 1995, and as the President and Chief Executive Officer of China Synthetic Rubber Corporation, a petrochemicals company based in Taipei, Taiwan, since 1992. Prior to that time, Dr. Wu served as President and Chief Executive Officer of Grand Pacific Petrochemical Corporation, a Taipei, Taiwan based producer of styrene, polystyrene and ABS plastics, from 1990 through 1992, and as Executive Vice President of USI Far East Corporation, a Taipei, Taiwan based producer of polyethylene, from 1989 through 1990. Dr. Wu was also a Vice President and General Director of Industrial Technology Research Institute Union Chemical Laboratories, an industrial chemical technology research organization in Hsin Chu, Taiwan, from 1985 through 1989, and held various positions related to polymer research at E.I. du Pont de Nemours & Company in Wilmington, Delaware from 1975 through 1985. Dr. Wu currently serves as a board member of China Synthetic Rubber Corporation, Taiwan Cement Corporation, Taiwan Polypropylene Corporation and China Steel Chemical Corporation, each of which is a public company in Taiwan.



**Table of Contents**

Noteholders Nominee

*Who May Vote*

If you owned any of our Notes on March 4, 2005, as reflected in the register maintained by the Trustee for our Notes, you may vote in the election for the Noteholders Nominee. Our shares of Preferred Stock and our shares of Common Stock do not vote in the election for the Noteholders Nominee.

*Quorum*

In order to conduct the election for the Noteholders Nominee, we must have a quorum. Under our Certificate of Incorporation, a quorum of the Noteholders will be present if we have at least 33-1/3% in aggregate principal amount of our outstanding Notes represented at the Annual Meeting, either in person or by proxy.

*Outstanding Notes*

On March 4, 2005, there was \$100,579,000 in aggregate principal amount of our Notes outstanding, none of which were owned by us or any of our subsidiaries.

*Votes Needed*

In the election for the Noteholders Nominee, each holder of our Notes is entitled to one vote for each \$1,000 aggregate principal amount of outstanding Notes he or she holds. The Noteholders Nominee is elected to our Board if he receives the favorable vote of a plurality of the votes cast by the holders of Notes who are entitled to vote and are present, either in person or by proxy, at the Annual Meeting. Under this format, abstentions and broker non-votes will not affect the outcome of the election.

*Information about the Noteholders Nominee is provided below.*

*John W. Gildea*  
Age 61  
Director Since December 2002

Mr. Gildea has been a managing director and principal of Gildea Management Company since 1990. Gildea Management Company and its affiliates have been the investment advisor to The Network Funds, which specializes in distressed company and special situation investments. Mr. Gildea has served on the Board of Directors of a number of restructured or restructuring companies, including Amdura Corporation, American Healthcare Management, Inc., America Service Group Inc., GenTek, Inc., Konover Property Trust, Inc. and UNC Incorporated. Mr. Gildea also serves as a member of the Board of Directors of Universal Aerospace Company, Inc. and Misonix, Inc. and several United Kingdom based investment trusts.

## **Table of Contents**

### Director Compensation

A member of our Board who is also one of our employees does not receive additional compensation for serving on our Board or any Board committees, although all of our directors are reimbursed for their travel expenses related to their services as a director. Each of our non-employee directors is currently paid an annual retainer of \$25,000 for his service as a director, and meeting fees of \$2,500 for each Board meeting held in person that he attends and \$1,250 for each telephonic Board meeting in which he participates. Our non-employee directors that serve on our Board Committees are also paid \$1,500 for each Committee meeting held in person that they attend and \$750 for each telephonic Committee meeting in which they participate. Previously, our directors were permitted to defer any or all of these payments, with deferred payments accruing interest at the average quoted rate for a ten-year U.S. Treasury Note. Our Board terminated this deferral option effective as of January 1, 2005, and on January 10, 2005 we paid Mr. Gildea \$100,183 and Dr. Wu \$25,313 as payment in full of amounts previously accrued by them under the deferral option. The amount we paid to Mr. Gildea included \$49,750 for services rendered in 2004. We paid a total of \$38,000 to Dr. Wu for services rendered in 2004, a portion of which was paid through the \$25,313 distribution on January 10, 2005. We paid Mr. Krasner \$43,000 for services rendered as a director in 2004. Messrs. Haney, Kirschner, Sivin, Symington and Whittaker are employed by Resurgence and, pursuant to established policies of Resurgence, all director compensation earned by these directors is paid to Resurgence.

### Independence

Mr. Gildea is considered independent under the listing standards of the New York Stock Exchange. Each of Messrs. Haney, Kirschner, Sivin, Symington and Whittaker are employed by Resurgence, which has beneficial ownership of a substantial majority of the voting power of our securities due to its investment and disposition authority over securities owned by its and its affiliates managed funds and accounts. As a result of this beneficial ownership, Resurgence is considered to be our affiliate under Securities and Exchange Commission guidelines and, consequently, Messrs. Haney, Kirschner, Sivin, Symington and Whittaker may be considered to be not independent under the listing standards of the New York Stock Exchange due to their employment by Resurgence. In addition, Dr. Wu may be considered to be not independent under the listing standards of the New York Stock Exchange because his son-in-law was previously employed by Resurgence until March 31, 2004. Mr. Crump is our Chief Executive Officer and, consequently, is considered to be not independent under the listing standards of the New York Stock Exchange.

### Board Committees

Our Board of Directors has created various standing committees to help carry out its duties, including an Audit Committee, a Compensation Committee, a Corporate Governance Committee and an Environmental, Health and Safety Committee. Generally speaking, our Board Committees work on key issues in greater detail than would be possible at full Board meetings. Each of our Board Committees consults, from time to time, with outside experts concerning the performance of its duties. As part of its duties, our Corporate Governance Committee acts as our nominating committee.

#### *Audit Committee*

Our Audit Committee is currently comprised of three of our non-employee directors, Byron J. Haney (Chairman), John W. Gildea and Keith R. Whittaker, and met four times in 2004. Our Audit Committee operates under a written charter adopted by our Board, a current copy of which is posted on



## **Table of Contents**

our website at [www.sterlingchemicals.com](http://www.sterlingchemicals.com), and is also an Exhibit to our Form 10-K. Our Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements, and monitors the qualifications, independence and performance of our internal and independent auditors. Our Audit Committee is directly responsible for the appointment, compensation and oversight of our independent internal and external auditors, and approves the audit and other services to be provided by these auditors. In addition, our Audit Committee reviews our Form 10-K and Form 10-Q reports, our practices in preparing published financial statements and our internal and disclosure controls. Upon the recommendation of our Audit Committee, our Board adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers, a current copy of which is posted on our website at [www.sterlingchemicals.com](http://www.sterlingchemicals.com), and is also an Exhibit to our Form 10-K. This Code of Ethics, which applies to our Chief Executive Officer, our Chief Financial Officer, our Controller and anyone performing similar functions on our behalf, is administered by our Audit Committee and provides for the reporting of violations to our Audit Committee on a confidential and anonymous basis.

Our Board has determined that Mr. Haney is an audit committee financial expert within the meaning ascribed to such term under the rules promulgated under the Sarbanes-Oxley Act of 2002, due to his education, training and employment as a certified public accountant, service as a member of the audit committee of other companies and other relevant experience acquired through his work at Resurgence and other companies. As discussed above, Mr. Gildea is considered independent under the listing standards of the New York Stock Exchange, while Messrs. Haney and Whittaker may be considered to be not independent under these listing standards due to their employment by Resurgence.

### *Compensation Committee*

Our Compensation Committee is currently comprised of two of our non-employee directors, John W. Gildea (Chairman) and Robert T. Symington, and met four times in 2004. Our Compensation Committee is responsible for discharging the compensation responsibilities of our Board, including establishing remuneration levels for our officers, reviewing significant employee benefit programs and establishing and administering executive compensation programs (including bonus plans, stock option plans and other equity-based programs, deferred compensation plans and other cash or stock incentive programs). In addition, our Compensation Committee establishes the annual fees and meeting fees to be paid to our non-employee directors. As discussed above, Mr. Gildea is considered independent under the listing standards of the New York Stock Exchange, while Mr. Symington may be considered to be not independent under these listing standards due to his employment by Resurgence.

### *Corporate Governance Committee*

Our Corporate Governance Committee is currently comprised of three of our non-employee directors, John W. Gildea, Thomas P. Krasner and Dr. Peter T.K. Wu, and met twice in 2004. Mr. Thomas P. Krasner currently serves as one of our directors as the designee of the Unsecured Creditors Committee in our prior bankruptcy proceedings. However, under our Certificate of Incorporation, Mr. Krasner's term as a director expires at the time of the Annual Meeting and he will not be one of our directors or a member of our Corporate Governance Committee after the Annual Meeting. As discussed above, Mr. Gildea is considered independent under the listing standards of the New York Stock Exchange and Dr. Wu may be considered to be not independent under the listing standards of the New York Stock Exchange due to his son-in-law's previous employment by Resurgence. Mr. Krasner is considered independent under the listing standards of the New York Stock Exchange. Our Corporate Governance Committee operates under a written charter adopted by our Board, a current copy of which is posted on our website at [www.sterlingchemicals.com](http://www.sterlingchemicals.com), and is also an Exhibit to our Form 10-K. Our Corporate Governance Committee considers all matters related to our corporate governance. In



**Table of Contents**

discharging its duties, our Corporate Governance Committee makes recommendations to our Board with respect to changes to our Certificate of Incorporation, Bylaws, committee structure and corporate governance guidelines, reviews all stockholder proposals, considers questions of independence of our Board members and possible conflicts of interest, reviews succession plans relating to positions held by our senior executive officers and reviews our insurance and indemnity arrangements for our directors and officers. In addition, our Corporate Governance Committee considers, recommends and recruits candidates to fill new or vacant positions on our Board and conducts inquiries into the backgrounds and qualifications of possible candidates for positions on our Board (unless any person or entity has the power to designate the individual to fill such position under our Certificate of Incorporation, any contract to which we are a party or the terms of any series of our preferred stock). Our Corporate Governance Committee also provides oversight with respect to the establishment of and adherence to corporate compliance programs, codes of conduct and other policies and procedures concerning our business and our compliance with all relevant laws.

*Environmental, Health and Safety Committee*

Our Environmental, Health and Safety Committee is currently comprised of three of our directors, Richard K. Crump (Chairman), Marc S. Kirschner and Dr. Peter T.K. Wu, and met twice in 2004. Our Environmental, Health and Safety Committee establishes policies, practices and procedures for employee safety and health, environmental protection and product safety to ensure that our operations are conducted in compliance with environmental laws, rules, regulations, permits and licenses. Our Environmental, Health and Safety Committee also conducts ongoing environmental planning activities and makes recommendations to our Board concerning the selection of external environmental auditors, including their compensation and the proposed terms of their engagement.

## **Table of Contents**

### Ratification of Appointment of Independent Registered Accounting Firm (Item 2 on the Proxy Card)

Our Audit Committee has appointed Deloitte & Touche as our independent registered accounting firm for Fiscal 2005. We are asking that our stockholders ratify that appointment. Deloitte & Touche has been our independent accounting firm for our last nine fiscal years and we believe that they are well qualified. Representatives of Deloitte & Touche are expected to be present at the Annual Meeting to answer appropriate questions and to make a statement, if they desire to do so.

#### *Who May Vote*

If you owned any shares of our Preferred Stock or Common Stock on March 4, 2005, as reflected in our stock register, you may vote at the Annual Meeting on the ratification and approval of the appointment of Deloitte & Touche as our independent registered accounting firm for Fiscal 2005 (the Deloitte Appointment ). Our Notes do not vote on the Deloitte Appointment.

#### *Outstanding Shares*

On March 4, 2005, there were 2,993.464 shares of our Preferred Stock (currently convertible into 2,993,464 shares of our Common Stock at the option of the holders) and 2,825,000 shares of our Common Stock outstanding, none of which were owned by us or any of our subsidiaries.

#### *Quorum*

In order to conduct the vote on the Deloitte Appointment, we must have a quorum of our stockholders. This means that we must have at least a majority of the voting power of our outstanding shares of Preferred Stock and Common Stock represented at the Annual Meeting, either in person or by proxy.

Our shares of Preferred Stock and Common Stock vote together as a single class on the Deloitte Appointment. For purposes of class voting, each share of our Preferred Stock has the right to one vote for each share of our Common Stock into which such share is convertible on the record date for such vote. Each share of our Preferred Stock was convertible into 1,000 shares of our Common Stock on the record date for the vote on the Deloitte Appointment, which means that each share of our Preferred Stock that is represented at the Annual Meeting is the equivalent of 1,000 shares of our Common Stock being represented at the Annual Meeting for purposes of determining whether a quorum is present for the vote on the Deloitte Appointment.

Any shares owned by us or by any of our subsidiaries are not counted for purposes of determining whether a quorum is present. Shares of our stock held by intermediaries that are voted for at least one matter at the Annual Meeting are counted as being present for purposes of determining a quorum for the vote on the Deloitte Appointment, even if the beneficial owner's discretion has been withheld for voting on some or all of the other matters (commonly referred to as a broker non-vote ).

#### *Votes Needed*

Each share of our Common Stock has the right to cast one vote on the Deloitte Appointment and each share of our Preferred Stock has the right to cast 1,000 votes on the Deloitte Appointment. Ratification and approval of the Deloitte Appointment requires the favorable vote of a majority of the voting power of the shares of our Preferred Stock and Common Stock that are entitled to vote on the matter and are present at the Annual Meeting, in person or by proxy. As a result, an abstention from voting on the Deloitte Appointment will have the same effect as a vote against

the Deloitte Appointment. However, broker non-votes are considered not to be present for voting on the Deloitte Appointment and, consequently, do not count as votes for or against the Deloitte Appointment and are not considered in calculating the number of votes necessary for approval.



**Table of Contents**

Our Audit Committee has furnished the following report for inclusion in this Proxy Statement.

*Roles in Financial Reporting*

The management of Sterling Chemicals, Inc. (*Sterling*) is responsible for Sterling's internal controls and the financial reporting process. The independent registered accounting firm hired by Sterling is responsible for performing an independent audit of Sterling's consolidated financial statements and issuing an opinion on the conformity of those financial statements with standards of the Public Company Accounting Oversight Board (United States). The Committee monitors and oversees these processes and reports to Sterling's Board of Directors with respect to its findings.

*Fiscal 2004 Financial Statements*

In order to fulfill our monitoring and oversight duties, we reviewed the audited financial statements included in Sterling's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, and we met and held discussions with Sterling's management and Deloitte & Touche LLP (*Deloitte*), Sterling's independent registered accounting firm, with respect to those financial statements. Management represented to us that all of these financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. We also discussed with Deloitte the matters required to be discussed by standards of the Public Company Accounting Oversight Board (United States) and Rule 2-07 of SEC Regulation S-X. Finally, we reviewed the written disclosures and the letter provided to us by Deloitte, as required by Independence Standards Board Standard No. 1, and we discussed with Deloitte its own independence. Based upon our discussions with management and Deloitte, and our review of Deloitte's report and the representations of management, we recommended to Sterling's Board of Directors that the audited financial statements for the year ended December 31, 2004 be included in Sterling's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission.

*Incorporation by Reference*

No portion of this report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, through any general statement incorporating by reference the Proxy Statement in which this report appears in its entirety, except to the extent that Sterling specifically incorporates this report or a portion of this report by reference. In addition, this report shall not otherwise be deemed to be soliciting material or to be filed under either of such Acts.

Respectfully submitted,

The Audit Committee of the Board of Directors

Byron J. Haney (Chairman)  
John W. Gildea  
Keith R. Whittaker

**Table of Contents***Audit Fees, Audit Related Fees, Tax Fees and Other Fees*

Deloitte & Touche has served as our independent public accountants for over nine years. We paid Deloitte & Touche the following fees for the years ended December 31, 2004 and December 31, 2003, respectively:

	Fiscal 2004	Fiscal 2003
Audit Fees	\$ 377,000	\$ 543,000
Audit Related Fees	32,000	70,000
Tax Fees	154,000	450,000
All Other Fees	0	0
Total	\$ 563,000	\$ 1,063,000

Audit Fees were paid for professional services consisting of the audit of the financial statements included in our Annual Report on Form 10-K and reviews of the financial statements included in our Quarterly Reports on Form 10-Q. Audit Related Fees during 2004 were paid primarily for consultation services in connection with compliance with Section 404 of the Sarbanes-Oxley Act. Audit Related Fees during 2003 were paid for services related to the audit of our employee benefit plans. Tax Fees were paid for services including assistance with tax compliance and the preparation of tax returns, tax consultation services, licensing of tax return software, assistance in connection with tax audits and tax advice related to mergers, acquisitions and dispositions.

Our Audit Committee has considered whether the provision to us of non-audit services by Deloitte & Touche is compatible with maintaining the independence of Deloitte & Touche, and concluded that the independence of Deloitte & Touche is not compromised by the provision of such services. In addition, our Audit Committee requires pre-approval of all audit and non-audit services provided by Deloitte & Touche. Our Audit Committee has not adopted any additional pre-approval policies and procedures but, consistent with its charter, our Audit Committee may delegate to one or more of its members the authority to pre-approve audit and non-audit services as permitted by law, provided that such pre-approval is submitted for ratification by the full Audit Committee at its next scheduled meeting.

**Our Board of Directors recommends that you vote FOR this proposal.**

**Table of Contents**

Approval of Proposed Charter Amendment  
(Item 3 on the Proxy Card)

Our Board of Directors recommends that our stockholders vote FOR the proposal to amend our Amended and Restated Certificate of Incorporation to increase the number of our total authorized shares from 10,125,000 to 20,125,000 and to increase the number of authorized shares of Common Stock from 10,000,000 to 20,000,000 (the Proposed Charter Amendment ). Currently, our authorized capital stock under our Amended and Restated Certificate of Incorporation is 10,125,000 shares of capital stock, consisting of 10,000,000 shares of Common Stock and 125,000 shares of Preferred Stock. Each share of our Preferred Stock is currently convertible at the option of the holder thereof at any time into 1,000 shares of our Common Stock, subject to adjustments. As of March 4, 2005, 2,993,464 shares of our Preferred Stock were issued and outstanding, convertible into 2,993,464 shares of our Common Stock. As of March 4, 2005, of the 10,000,000 shares of our Common Stock presently authorized for issuance, 2,825,000 shares were issued and outstanding, 2,993,464 shares were reserved for issuance upon conversion of our issued and outstanding shares of Preferred Stock, 379,747 shares were reserved for issuance under our 2002 Stock Plan and 949,367 shares were reserved for issuance upon the exercise of warrants to purchase shares of our Common Stock. As a result, as of March 4, 2005, there were only 2,852,422 authorized shares of our Common Stock that were not issued and outstanding or reserved for issuance and available for any future business purposes by the Company. In addition, under the terms of our Preferred Stock, we expect to issue an additional 508,465 shares of our Preferred Stock in the form of Preferred Stock dividends over the next 12 months and we would reserve an additional 508,465 shares of our Common Stock for issuance upon conversion of those shares of Preferred Stock. Accordingly, our Board of Directors has approved for submission to our stockholders, and recommends that our stockholders approve, the Proposed Charter Amendment.

The additional 10,000,000 authorized shares of our Common Stock may be issued for any proper corporate purpose approved by our Board of Directors. The availability of additional authorized shares will enable our Board of Directors to act with flexibility when and as the need arises to issue additional shares in the future without the delays necessitated by having to obtain a stockholder vote and to take advantage of changing market and financial conditions in a more timely manner. Among the reasons for issuing additional shares would be to increase our capital through sales of our Common Stock, to engage in other types of capital transactions, to finance acquisitions and to satisfy our commitments under the terms of our Preferred Stock. The additional shares of Common Stock authorized by the Proposed Charter Amendment will be identical in all respects to our existing Common Stock and will not carry any preemptive rights.

Our management regularly reviews a range of possible financing transactions and acquisitions, including through the issuance of our Common Stock. While there are no such acquisitions currently pending, subject to market and other conditions, we may sell additional equity in the first half of 2005. Any equity sales may involve traditional underwritten offerings, continuous equity offerings or other transactions. If any such offerings are made prior to, or in the absence of approval of, the Proposed Charter Amendment, the shares would be from a portion of the 2,852,422 of existing authorized shares of our Common Stock that are currently not reserved and that may be issued for the purposes described above.

In some instances, stockholder approval for the issuance of additional shares may be required by law, or the obtaining of such approvals may be otherwise necessary or desirable.

Our Board of Directors has not proposed the increase in the amount of authorized shares with the intention of discouraging tender offers or takeover attempts. However, the availability of additional authorized shares for issuance could render more difficult or discourage a merger, tender offer, proxy



## **Table of Contents**

contest or other attempt to obtain control of us, which may adversely affect the ability of our stockholders to obtain a premium for their shares of the our Common Stock.

### *Who May Vote*

If you owned any shares of our Preferred Stock or Common Stock on March 4, 2005, as reflected in our stock register, you may vote at the Annual Meeting on the approval of the Proposed Charter Amendment. Our Notes do not vote on the Proposed Charter Amendment.

### *Outstanding Shares*

On March 4, 2005, there were 2,993,464 shares of our Preferred Stock (currently convertible into 2,993,464 shares of our Common Stock at the option of the holders) and 2,825,000 shares of our Common Stock outstanding, none of which were owned by us or any of our subsidiaries.

### *Quorum*

In order to conduct the vote on the Proposed Charter Amendment, we must have a quorum of our stockholders. This means that we must have at least a majority of the voting power of our outstanding shares of Preferred Stock and Common Stock represented at the Annual Meeting, either in person or by proxy.

Our shares of Preferred Stock and Common Stock vote together as a single class on the Proposed Charter Amendment. For purposes of class voting, each share of our Preferred Stock has the right to one vote for each share of our Common Stock into which such share is convertible on the record date for such vote. Each share of our Preferred Stock was convertible into 1,000 shares of our Common Stock on the record date for the vote on the Proposed Charter Amendment, which means that each share of our Preferred Stock that is represented at the Annual Meeting is the equivalent of 1,000 shares of our Common Stock being represented at the Annual Meeting for purposes of determining whether a quorum is present for the vote on the Proposed Charter Amendment.

Any shares owned by us or by any of our subsidiaries are not counted for purposes of determining whether a quorum is present. Shares of our stock held by intermediaries that are voted for at least one matter at the Annual Meeting are counted as being present for purposes of determining a quorum for the vote on the Proposed Charter Amendment, even if the beneficial owner's discretion has been withheld for voting on some or all of the other matters (commonly referred to as a broker non-vote).

### *Votes Needed*

Each share of our Common Stock has the right to cast one vote on the Proposed Charter Amendment and each share of our Preferred Stock has the right to cast 1,000 votes on the Proposed Charter Amendment. Ratification and approval of the Proposed Charter Amendment requires the favorable vote of a majority of the voting power of the shares of our Preferred Stock and Common Stock that are entitled to vote on the Proposed Charter Amendment. As a result, abstentions from voting on the Proposed Charter Amendment and broker non-votes will have the same effect as a vote against the Proposed Charter Amendment.

If the Proposed Charter Amendment is approved, Paragraph A of Article FOURTH of our Amended and Restated Certificate of Incorporation will be amended to read as follows:

A. Authorized Capital Stock. The total number of shares of stock that the Corporation shall have the authority to issue is 20,125,000 shares of capital stock, consisting of (i) 125,000 shares of preferred stock, par value \$0.01 per

share (the Preferred Stock ), and (ii) 20,000,000 shares of common stock, par value \$0.01 per share (the Common Stock ).

**Table of Contents**

Our Board of Directors has unanimously adopted resolutions setting forth the Proposed Charter Amendment, declaring its advisability and directing that the Proposed Charter Amendment be submitted to our stockholders for their approval at the Annual Meeting. If approved by our stockholders, the Proposed Charter Amendment will become effective upon filing of an appropriate certificate with the Secretary of State of the State of Delaware.

**Our Board of Directors recommends that you vote FOR this proposal.**

\* \* \*

Additional Proposals

Our Board of Directors does not intend to bring any other matters before the Annual Meeting in addition to those described above, and has not been informed that any other matters are to be presented by others. The accompanying proxy confers discretionary authority upon the persons named therein to vote your shares of Preferred Stock and Common Stock in accordance with their best judgment on any other matter that may be properly brought before the Annual Meeting.

-22-

---

**Table of Contents**

Executive Officers Of The Company

Personal information with respect to each of our executive officers is set forth below.

*Richard K. Crump*

Age 58

Mr. Crump has served as our President and Chief Executive Officer since January of 2003. Prior to that time, Mr. Crump served as our Co-Chief Executive Officer from December of 2001 through January of 2003, our Executive Vice President Operations from May of 2000 through December of 2001, our Vice President Strategic Planning from December of 1996 through May of 2000, our Vice President Commercial from October of 1991 through December 1, 1996 and our Director Commercial from August of 1986 through October of 1991. Prior to joining us, Mr. Crump was Vice President of Sales for Rammhorn Marketing from 1984 through August of 1986 and Vice President of Materials Management for El Paso Products Company from 1976 through 1983.

*Paul G. Vanderhoven*

Age 51

Mr. Vanderhoven has been our Chief Financial Officer since March of 2001 and our Senior Vice President Finance since January of 2003. Prior to that time, Mr. Vanderhoven served as our Vice President Finance since October of 2000. Prior to becoming our Chief Financial Officer, Mr. Vanderhoven served as our Corporate Controller from October of 1989 through March of 2001, and our Manager Finance from August of 1986 through October of 1989. Before joining us, Mr. Vanderhoven held various positions with Monsanto Company from 1977 through August of 1986.