

LUBRIZOL CORP
Form DEF 14A
March 16, 2005

**UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION**
Washington, D.C. 20549
SCHEDULE 14A

OMB APPROVAL
OMB Number: 3235-00595

Expires: February 28, 2006
Estimated average burden
hours per response.....
12.75

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

Filed by the Registrant **X**
Filed by a Party other than the Registrant **O**

Check the appropriate box:

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

THE LUBRIZOL CORPORATION

(Name of Registrant as Specified In Its Charter)

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

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- X** No fee required.
- O** Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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4. Date Filed:

THE LUBRIZOL CORPORATION

29400 Lakeland Boulevard
Wickliffe, Ohio 44092

NOTICE OF ANNUAL MEETING

To Our Shareholders:

The 2005 Annual Meeting of Shareholders of The Lubrizol Corporation will be held at the Radisson Hotel & Conference Center Eastlake, 35000 Curtis Boulevard, Eastlake, Ohio, on Monday, April 25, 2005, at 10:00 a.m. At the meeting we will ask you to:

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1. Elect two directors for three-year terms;
2. Consider and act upon a proposal to adopt The Lubrizol Corporation 2005 Stock Incentive Plan;
3. Confirm the appointment of Deloitte & Touche LLP as the independent registered public accountant; and
4. Transact other business that is properly presented at the meeting.

Shareholders of record at the close of business on March 4, 2005 may vote at the meeting. The procedures for voting are described in the attached proxy statement.

The business of the meeting and other information of interest to shareholders is described in the attached proxy statement. After the meeting, we will report on current operations and plans, and have a question and answer period.

At the 2004 meeting, approximately 84 percent of the shares were voted either in person or by proxy. Your continued support is appreciated, and we hope that you will be able to join us at the April 25th meeting.

L. M. Reynolds
Secretary

Wickliffe, Ohio
March 16, 2005

RETURN OF PROXIES REQUESTED

**Your vote is important. You can vote by
telephone, over the Internet or by mailing the
enclosed proxy card.**

PROXY STATEMENT

VOTING INFORMATION

What may I vote on?

The Board of Directors asks for your vote on three proposals:

Election of nominees to serve on the Board of Directors;

Adoption of The Lubrizol Corporation 2005 Stock Incentive Plan; and

Confirmation of the appointment of Deloitte & Touche LLP as the independent registered public accountant.

Who can vote?

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People who owned shares at the close of business on March 4, 2005 can vote at the annual meeting. On March 4, 2005, there were 67,676,988 outstanding shares of Lubrizol. Each share is entitled to one vote. This proxy statement and the enclosed proxy card were first mailed to shareholders on or about March 16, 2005.

How do I vote?

You can vote any one of three ways:

By Telephone: Call the toll-free number (at no cost to you) on the enclosed proxy card to vote by phone. Telephone voting is available 24 hours a day. Easy-to-follow voice prompts allow you to vote your shares and confirm that your vote has been properly recorded.
If you vote by telephone, you do not need to return the proxy card.

Over the Internet: Visit the web site listed on the enclosed proxy card to vote over the Internet. Internet voting is available 24 hours a day. As with telephone voting, you will be given the opportunity to confirm that your vote has been properly recorded.
If you vote over the Internet, you do not need to return the proxy card.

By Mail: Mark, sign, date and mail the enclosed proxy card to ADP Investor Communications Services in the enclosed postage-paid envelope.

If you sign and return the proxy card or use the telephone or Internet voting procedures, but do not indicate how you wish to vote, your shares will be voted FOR the three proposals. If you indicate that you abstain, you will be counted as present at the annual meeting for purposes of determining whether there is a majority of outstanding shares at the meeting and you will be counted as voting (but not for or against) that issue. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. If you are a beneficial shareholder and your broker holds your shares in its name, the broker is permitted to vote your shares on the election of directors even if the broker does not receive voting instructions from you. Under the New York Stock Exchange rules, your broker may not vote your shares on the proposal relating to The Lubrizol Corporation 2005 Stock Incentive Plan without instructions from you. Without your voting instructions on this item, a broker non-vote will occur. A broker non-vote will be counted as present at the annual meeting for purposes of determining whether there is a majority of outstanding shares at the meeting but will not be counted as voted.

We are not aware of any other business that will be presented at the annual meeting. But, if there is other business that is properly presented at the meeting, your signature on a proxy card or through the telephone or Internet procedures gives authority to J. L. Hambrick, Chairman, President and Chief Executive Officer, C. P. Cooley, Senior Vice President and Chief Financial Officer, and L. M. Reynolds, Corporate Secretary and Counsel, to vote on those matters in their best judgment.

1

Please note: If you are a beneficial owner, please refer to the information forwarded by your bank, broker or other holder of record to see which voting options are available to you.

Can I revoke my vote?

You may revoke your proxy at any time before it is voted at the meeting by:

notifying Lubrizol's corporate secretary in writing;

voting at a later time by telephone or over the Internet;

returning a later-dated proxy card; or

voting in person at the annual meeting.

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Who tabulates the vote?

ADP Investor Communications Services serves as the independent tabulator of votes and inspector of elections. It will report the voting results to us. However, it will not identify to us how you voted on any issue unless:

there is a contested election for the Board of Directors;

it is required by law; or

you request it.

Who is paying for this proxy solicitation?

We are paying for the cost of soliciting your vote, including the cost of mailing the proxy statement and proxy card as well as the costs of the telephone and Internet voting procedures. We will, upon request, reimburse brokerage houses, custodians, nominees and others for the out-of-pocket and reasonable clerical expenses they incur in connection with this proxy solicitation.

How can I help Lubrizol save money by reducing the number of proxy materials sent to my house?

We have adopted a procedure approved by the Securities and Exchange Commission called *householding*. Under this procedure, we are saving money on printing and mailing costs by sending only one proxy statement and annual report to shareholders who have the same last name and address and do not participate in electronic delivery of proxy materials (unless they have told us otherwise). Shareholders who participate in *householding* will continue to receive separate proxy cards. If you currently share the same last name and address with another Lubrizol shareholder and in the future wish to have just one proxy statement and annual report sent to your address, please contact ADP Investor Communication Services, 51 Mercedes Way, Edgewood, NY 11717.

If you participate in *householding* and you want to receive a separate copy of the annual report or proxy statement either now or in the future, please contact ADP.

If you hold stock through a bank, broker or other holder of record, you can contact them about receiving single or multiple copies of the proxy statements and annual reports.

Instead of receiving a paper copy, can I access the proxy statement and the annual report electronically?

The proxy statement and 2004 annual report are on our Internet site at <http://corporate.lubrizol.com/Investors/annualreport.asp>.

You can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies in the mail. You can choose this option and save us the cost of producing and mailing these documents by following the instructions provided on the enclosed proxy card. If you chose this option, we will furnish you with instructions next year containing the Internet address to access our proxy statement and annual report, but you will not receive paper copies of either document.

2

If you hold stock through a bank, broker or other holder of record, check the information provided by them for instructions on how to elect to view future proxy statements and annual reports over the Internet. Most shareholders who hold stock through a bank, broker or other holder of record and who elect electronic access will receive an e-mail next year containing the Internet address to access our proxy statement and annual report.

ELECTION OF DIRECTORS

The authorized number of Lubrizol directors is currently fixed at ten, divided into three classes. Two classes have four members each and one class has two members. The directors in each class are elected for three-year terms so that the term of office of one class of directors expires at

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each annual meeting.

The Organization and Compensation Committee recommended, and the Board of Directors approved, the nomination of the following two people for election as directors at this annual meeting:

Peggy Gordon Miller

Dominic J. Pileggi

Each of these persons is currently a director and is being nominated for a three-year term which will end in 2008. If either of these people becomes unavailable for election, your signed proxy will be voted for the election of any person who is recommended by the Organization and Compensation Committee or will be voted in favor of holding a vacancy to be filled by the directors. The individuals who receive the greatest number of votes will be elected to the open director positions.

The following information is presented for each person who is being nominated for election as a director and for each other director who will continue in office after the meeting:

NOMINEES FOR ELECTION

PEGGY GORDON MILLER, age 67, is President of South Dakota State University. Prior to joining South Dakota State in 1998, Dr. Miller was Acting Vice President for Academic and International Programs at the American Association of State Colleges and Universities. She has also served as a Senior Fellow at the National Center for Higher Education, President of The University of Akron and Chancellor of Indiana University Northwest. She became a Lubrizol director in 1993. Dr. Miller is also a director of A. Schulman, Inc. She is a member of the National Competitiveness Council, the Governors Value Added Investment Board and serves as Chairman of the Board of the SDSU Growth Partnership. Dr. Miller also chairs the Global Priorities Commission for the American Association of State Colleges and Universities and the Governance & Nominating Committee of A. Schulman. Dr. Miller holds degrees from Transylvania University, Northwestern University and Indiana University.

DOMINIC J. PILEGGI, age 53, is President and Chief Executive Officer of Thomas & Betts Corporation, a leading producer of connectors and components for worldwide electrical markets. Mr. Pileggi was elected Senior Vice President of Thomas & Betts in 2000, Group President-Electrical in 2000, Chief Operating Officer in 2003, President in 2003 and Chief Executive Officer in 2004. Prior to joining Thomas & Betts, Mr. Pileggi was President of EMS Division of Viasystems, Inc., a provider of electronics manufacturing services. Mr. Pileggi was appointed as a Lubrizol director in February 2005. He is also a director of Thomas & Betts Corporation. Mr. Pileggi received a B.A. in economics from Rutgers University.

3

DIRECTORS WHOSE TERMS OF OFFICE WILL CONTINUE AFTER THE MEETING

JERALD A. BLUMBERG, age 65, resigned in June 2000 as President and Chief Executive Officer of Ambar, Inc., a privately held oilfield services company. Prior to joining Ambar, Inc. in January 1998, Mr. Blumberg held various international and management positions during a 37-year career with E. I. du Pont de Nemours & Company, Inc. From October 1995 until his retirement on December 31, 1997, he was an Executive Vice President, Chairman of DuPont Europe and a member of the Office of the Chief Executive. Mr. Blumberg became a Lubrizol director in 1999. Mr. Blumberg received a B.S. in chemical engineering from Michigan Technological University in 1960. He is a director of NOVA Chemicals Corporation and a member of the National Society of Professional Engineers and the American Institute of Chemical Engineers. Mr. Blumberg's term as a Lubrizol director expires in 2006.

FOREST J. FARMER, SR., age 64, is President and Chief Executive Officer of The Farmer Group. He is also Chairman, Chief Executive Officer and President of Enerflex Solutions LLC, which provides value-added subassemblies to the automotive industry and of Trillium Teamologies, a technology and engineering services company. Mr. Farmer was associated with Chrysler Corporation from 1968 to 1994 where he held various management positions including General Plants Manager for Car and Truck Assembly Operations. From 1988 until 1994, he was President of Acustar, Inc., an automotive components subsidiary of Chrysler Corporation. Mr. Farmer became a Lubrizol director in January 1997. Mr. Farmer graduated from Purdue University in 1965 with a B.S. degree in biology and physical education. He is a member of the Board of Directors of

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Saturn Electronics and Engineering, Inc., American Axle & Manufacturing, St. John Health System, the Macomb Hospital Corporation and Friends of Scouting. Mr. Farmer's term as a Lubrizol director expires in 2006.

JAMES L. HAMBRICK, age 50, is Chairman of the Board, President and Chief Executive Officer. Mr. Hambrick joined Lubrizol as a co-operative education student in 1973 and was hired full-time in 1978. His career has encompassed a variety of responsible positions in operations, marketing, technology and business development. During the 1990's, Mr. Hambrick led market development activities in the former Soviet Union and in China. He was elected Vice President of Asia-Pacific in April 2000, President in January 2003, Chief Executive Officer on April 26, 2004 and Chairman of the Board on January 3, 2005. He received a B.S. degree in chemical engineering from Texas A&M University in 1978. He is a member of the American Institute of Chemical Engineers. Mr. Hambrick's term as a Lubrizol director expires in 2007.

GORDON D. HARNETT, age 62, is Chairman and Chief Executive Officer of Brush Engineered Materials Inc., the world's largest producer of beryllium and beryllium-containing engineered products. Prior to joining Brush in 1991, Mr. Harnett had been Senior Vice President of The B.F. Goodrich Company. From 1977 to 1988, he had held a series of senior executive positions with Tremco Inc., a wholly owned subsidiary of B.F. Goodrich, including President and Chief Executive Officer from 1982 to 1988. From 1969 through 1976, Mr. Harnett worked for McKinsey & Co., including a two-year assignment in Tokyo. Mr. Harnett became a Lubrizol director in 1995. Mr. Harnett graduated from Miami University in 1964 with a B.S. degree in business administration. He received an M.B.A. from Harvard University in 1969. Mr. Harnett is a Director of PolyOne Corporation and EnPro Industries, Inc. In addition, he is a Trustee of University Hospitals of Cleveland and Greater Cleveland Partnership and is Chairman of Cleveland Development Advisors, Inc. Mr. Harnett's term as a Lubrizol director expires in 2007.

4

VICTORIA F. HAYNES, age 57, is President and Chief Executive Officer of RTI International. RTI provides government and industry clients with research and development services in health, pharmaceuticals, environmental protection, advanced technologies and public policy. Prior to joining RTI in June 1999, Dr. Haynes was Vice President-Research and Development and Chief Technical Officer at The B.F. Goodrich Company, a specialty chemicals and aerospace company. Dr. Haynes became a Lubrizol director in 1995. Dr. Haynes graduated from the University of California at Berkeley in 1969 with a B.S. in chemistry. She received a M.A. in college teaching in 1971 and a Ph.D. in physical/organic chemistry in 1975 from Boston University and followed with a post-doctoral associate assignment at Purdue University for two years. Dr. Haynes is a director of Nucor Corporation, Ziptronix, Inc., PPG Industries, Inc. and the Kansas Bioscience Authority Board. In addition, she is active in the Council on Competitiveness. Dr. Haynes' term as a Lubrizol director expires in 2007.

WILLIAM P. MADAR, age 65, retired in March 2004 as Chairman of the Board of Nordson Corporation. He was Chief Executive Officer of Nordson until he retired from that position in November 1997. Nordson Corporation manufactures and markets worldwide industrial equipment, along with the software and application technologies that enhance its use. He is Chairman of the Board of CPref, a developer of software for the market research industry. A 1961 graduate of Purdue University with a B.S. degree in chemical engineering, he earned an M.B.A. from Stanford University in 1965. Mr. Madar became a Lubrizol director in 1992. He is a director of Brush Engineered Materials Inc. and a trustee of the Cleveland Museum of Art. He is also co-chairman of the Advisory Committee for the Ohio Innovation Fund, an early stage venture capital fund. Mr. Madar's term as a Lubrizol director expires in 2007.

RONALD A. MITSCH, age 70, retired in October 1998 as Vice Chairman and Executive Vice President-Industrial and Consumer Markets of 3M Company, a manufacturer of products for industrial, commercial, health care and consumer markets. He began his career with 3M in 1960 as a Senior Research Chemist. He served various assignments in research and in 1979 was named Managing Director, 3M Netherlands. He returned to the United States in 1981 as Research and Development Vice President, Life Sciences Sector. He was named Group Vice President, Traffic and Personal Safety Products in 1985, Senior Vice President, Research and Development in 1990, Executive Vice President in 1991 and Vice Chairman in 1995. Dr. Mitsch graduated from Hamline University in 1956 with a B.S. in chemistry. He received a M.S. in organic chemistry in 1958 and a Ph.D. in organic chemistry in 1960 from the University of Nebraska. Dr. Mitsch became a Lubrizol director in 1991. He is a director of Material Sciences Corporation where he is also non-employee Chairman of the Board. In addition, he is an Emeritus Trustee on the Board of Trustees of Hamline University. The Organization and Compensation Committee requested and Dr. Mitsch agreed to continue in his term beyond the 2004 Annual Shareholders Meeting. Dr. Mitsch's term as a Lubrizol director

expires in 2006.

5

DANIEL E. SOMERS, age 57, is Vice Chairman of Blaylock & Partners LP, a minority-owned investment banking group in New York. He retired in October 2001 as President and Chief Executive Officer of AT&T Broadband, which provides local and long distance service, high speed Internet access and home entertainment services. Previously, Mr. Somers was Senior Executive Vice President and Chief Financial Officer of AT&T from May 1997 to December 1999. Prior to joining AT&T, Mr. Somers was Chairman and Chief Executive Officer of Bell Cablemedia, plc, of London for two years. From 1992 to 1995, he was Executive Vice President and Chief Financial Officer of Bell Canada International, Inc. Prior to joining Bell Canada, Mr. Somers held a number of senior executive, financial and operating-management positions with Radio Atlantic Holdings, Ltd. and Imasco Ltd. Mr. Somers became a Lubrizol director in 1999. Mr. Somers received a B.S. degree in finance from Stonehill College in North Easton, Massachusetts in 1969. Mr. Somers is a director of The Chubb Corporation and Boston Communications Group, Inc. and he is Vice Chairman of the Board of Trustees of Stonehill College. Mr. Somers term as a Lubrizol director expires in 2006.

DIRECTOR INDEPENDENCE

In addition to the independence criteria under the New York Stock Exchange listing standards, the Board of Directors adopted the following categorical standards to determine director independence:

Former Employees. A director will not be considered independent if during any of the past three years he or she has been an employee or whose immediate family member has been an executive officer of Lubrizol or any of its subsidiaries.

Former Auditors. A director will not be considered independent if: (a) the director or immediate family member is a current partner of Lubrizol's internal or external auditor; (b) the director is an employee of Lubrizol's internal or external auditor; (c) the director has an immediate family member who is a current employee of Lubrizol's internal or external auditor and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (d) during any of the past three years (but is no longer), the director or an immediate family member was a partner or employee of Lubrizol's internal or external auditor and worked personally on Lubrizol's audit during that time.

Interlocking Directorates. A director will not be considered independent if, during any of the past three years, he or she, or an immediate family member, has been an executive officer of another company for which a Lubrizol executive officer serves on that company's board of directors.

Immediate Family Members. The following individuals are considered immediate family members: spouses, parents, children, siblings, mothers- and fathers-in law, sons- and daughters-in-law, brothers- and sisters-in-law and anyone who shares the director's home.

Attorneys, Investment Bankers, Consultants. A director will not be considered independent if he or she is affiliated with a firm that is an attorney, investment banker, consultant or similar advisor to Lubrizol.

Significant Customer or Supplier. A director will not be considered independent if he or she is affiliated with or whose immediate family member is an executive officer of a customer that represents more than the greater of \$1 million or 2% of our total consolidated gross revenues. A director will not be considered independent if he or she is affiliated with or whose immediate family member is an executive officer of a supplier of which we represent more than the greater of \$1 million or 2% of its total consolidated gross revenues.

Significant Charitable Contribution Recipient. A director will not be considered independent if he or she is employed as an executive officer of a not-for-profit entity of which we represent more than the greater of \$1 million or 2% of its consolidated gross revenues.

6

The Board has determined that Jerald A. Blumberg, Forest J. Farmer, Sr., Gordon D. Harnett, Victoria F. Haynes, William P. Madar, Peggy Gordon Miller, Ronald A. Mitsch, Dominic J. Pileggi and Daniel E. Somers meet these standards of independence.

LEAD OUTSIDE DIRECTOR

Pursuant to the Board of Director Governance Guidelines, the Chair of the Organization and Compensation Committee serves as the lead outside director, who presides over executive sessions of the outside directors. You may communicate with the outside directors of the Board through the lead outside director by sending a letter marked Confidential and addressed to:

Lead Director, The Lubrizol Corporation Board of Directors
c/o Leslie M. Reynolds, Corporate Secretary
The Lubrizol Corporation
29400 Lakeland Boulevard
Wickliffe, OH 44092

You may also send an email to the lead outside director through Lubrizol's corporate secretary at lmre@lubrizol.com by indicating Lead Director in the subject line. The corporate secretary will forward these emails to the lead outside director.

ANNUAL MEETING ATTENDANCE

The Lubrizol Corporation Board of Directors Governance Guidelines provide that the expectation for attendance at meetings is 100 percent, including the Annual Meeting of Shareholders. Each director attended the Annual Meeting of Shareholders on April 26, 2004.

BOARD COMMITTEES

The Board of Directors held eleven meetings during 2004. The Board has several committees, including an Organization and Compensation Committee and an Audit Committee. The Board has adopted written charters for each committee.

Organization and Compensation Committee

The Organization and Compensation Committee is made up of all of the outside directors and its responsibilities include corporate governance, director nominations and executive compensation. The committee held seven meetings during 2004. Its principal functions are to:

Annually review the written charter and corporate governance and perform a self-assessment.

Review and approve the proxy statement, including the Report of the Organization and Compensation Committee on Executive Compensation.

Determine criteria for selecting new directors and review and recommend candidates for election as directors.

Review and recommend candidates for election as officers.

Oversee evaluation of the Board of Directors and management.

Evaluate the performance of the chief executive officer.

Set the compensation for the Board of Directors and the chief executive officer.

Review and approve officer compensation and executive employment agreements.

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Assure effective succession planning is conducted for the chief executive officer and other executive officers.

Designate employees to receive grants of stock options and other stock awards and determine the type and size of the awards.

Determine the size of the fund pools for the profit sharing plan, year-end variable compensation plan and the annual incentive pay plan.

Designate employees to receive awards under the annual incentive pay plan.

The committee identifies nominees for director through discussions with the directors or other entities that may come in contact with qualified persons. If desired, the committee will retain a search firm to identify nominees and will approve search firm fees to be paid by Lubrizol. This committee will consider shareholder recommendations for director nominations. These recommendations should be submitted in writing to Lubrizol's corporate secretary by January 1st before the next annual meeting.

The committee reviews and assesses the following criteria for all nominees for directors, regardless of the source of the recommendation: independence, diversity, age, judgment, skill, integrity, willingness to make the required time commitment, the interplay of the candidate's experience with the experience of the other Board members and skills necessary to the needs of the Board at the time of the opening.

The members of this committee are all of the outside directors. The Board has determined that each of the members is independent under the rules of the New York Stock Exchange and our independence criteria. The chair of this committee serves as the lead outside director for purposes of chairing regularly scheduled meetings of outside directors and for other responsibilities which the outside directors designate. Gordon D. Harnett, chair of this committee, currently is the lead outside director.

Audit Committee

The principal functions of the Audit Committee are to:

Annually appoint the independent registered public accountant and evaluate with management the performance of the independent registered public accountant. The independent registered public accountant is ultimately accountable to the Board and the Audit Committee.

Review with the independent registered public accountant and internal auditors the planned scope and results of audits and pre-approve all audit and non-audit services performed by the independent registered public accountant.

Hold conferences and review with the auditors matters that affect the financial statements and the results of the independent registered public accountant's reviews, annual audit and reports.

Review the adequacy and effectiveness of the internal audit function.

Oversee Lubrizol's internal control structure.

Receive, retain and address complaints received by Lubrizol regarding accounting, internal accounting controls or auditing matters.

Provide oversight of the activities of the chief ethics officer and review procedures for monitoring compliance with Lubrizol's Ethical and Legal Conduct Guidelines.

Discuss risk assessment and risk management policies.

Annually review the written charter and perform a self-assessment.

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Obtain advice and assistance from outside advisors, as desired.

Set clear hiring policies for employees or former employees of the independent registered public accountant.

Periodically report the activities of the committee to the Board.

In performing its functions, the Audit Committee acts in an oversight capacity for Lubrizol's management processes and systems, internal control structure, financial reporting and risk management. It is not responsible for preparing or assuring the accuracy of Lubrizol's financial statements or filings, or conducting audits of financial statements.

The members of the Audit Committee are Daniel E. Somers (Chair), Victoria F. Haynes, William P. Madar and Ronald A. Mitsch. None of the members sit on more than three audit committees of public companies.

The Board of Directors has determined that Lubrizol has serving on the Audit Committee at least one audit committee financial expert, as defined in Item 401(h)(2) of Regulation S-K. Daniel E. Somers, Chair, is the audit committee financial expert. The Board has determined that Mr. Somers and each of the members of the Audit Committee are independent under the New York Stock Exchange listing standards and our independence standards.

Audit Committee Report

The Audit Committee reviews Lubrizol's financial reporting process on behalf of the Board of Directors. The committee held five meetings during 2004. During these meetings, the committee reviewed and discussed the audited financial statements for 2004 separately with management and Lubrizol's independent registered public accountant. The discussions with the independent registered public accountant included matters required to be discussed by the Statement on Auditing Standards No. 61, as amended by Statement on Auditing Standards No. 90, and other regulations. In addition, the committee received from the independent registered public accountant written independence disclosures and the letter required by Independence Standards Board Standard No. 1 and discussed with the independent registered public accountant its independence. Based on the review of the audited financial statements and the discussions described above, the committee recommended to the Board of Directors that the audited financial statements be included in Lubrizol's Annual Report on Form 10-K for the year ended December 31, 2004 for filing with the Securities and Exchange Commission.

Daniel E. Somers, Chair

William P. Madar

Victoria F. Haynes

Ronald A. Mitsch

GOVERNANCE GUIDELINES AND COMMITTEE CHARTERS

The Lubrizol Corporation Board of Directors Guidelines and all the committee charters are located on our Internet site at <http://corporate.lubrizol.com/Investors/governance/default.asp>.

DIRECTOR COMPENSATION

Directors who are not Lubrizol employees receive a yearly cash retainer fee of \$32,500, plus \$1,100 for each Board meeting they attend and \$1,100 for each committee meeting they attend. If a committee meeting is held on a different day from a Board meeting, they receive \$1,300 for the committee meeting.

Directors who are not Lubrizol employees may participate in a deferred compensation plan for directors. Under this plan, directors may defer all or any portion of their yearly fee and meeting attendance fees and have these amounts credited to various cash investment accounts and/or a share unit account. The investment returns of the cash investment accounts equal the performance of investment portfolios designated by the Organization

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and Compensation Committee. The number of share units credited to the share unit account is based on the price of Lubrizol common shares on the day the share units are credited to the account and includes additional share units credited for quarterly dividends paid on the Lubrizol common shares. When a person is no longer a director, cash is distributed from the person's cash account and Lubrizol common shares are issued equal to the number of share units in the person's share unit account.

Subject to shareholder approval at the April 25, 2005 meeting, on the date of each annual meeting, each director who is not a Lubrizol employee will automatically receive a grant of \$60,000 worth of restricted stock units under the 2005 Stock Incentive Plan. At the end of the one-year restriction period, Lubrizol common shares will be issued equal to the number of restricted stock units granted. A director may elect prior to the year of the grant to defer part or all of the distribution of common shares under the deferred compensation plan for directors.

DIRECTOR SHARE OWNERSHIP GUIDELINES

We have share ownership guidelines that require each nonemployee director to own at least 5,200 Lubrizol common shares. New directors have five years to reach this target.

SHARE OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS AND LARGE BENEFICIAL OWNERS

The following table shows the number of Lubrizol common shares beneficially owned on January 31, 2005 by each director and each executive officer named in this proxy statement and by all officers and directors as a group. Each person has sole voting and investment power for all the shares shown, unless otherwise noted. Mr. Bares, who resigned as Chairman of the Board on January 3, 2005 upon his retirement from Lubrizol, beneficially owns 1.3% of Lubrizol shares based on the total shown in the table below. No other executive officer or director owns more than one percent of Lubrizol common shares. All executive officers and directors as a group own approximately 3.1 percent of Lubrizol common shares.

Name of beneficial owner	Amount and Nature of Beneficial Ownership				
	Total	Direct Ownership (1)	Employee Plan (2)	Exercisable Options (3)	Deferred Share Units (4)
W. G. Bares (5)	893,607	114,936		743,622	35,049
Jerald A. Blumberg	24,837	1,000		13,875	9,962
D. W. Bogus	88,442	1,980	4,717	66,000	15,745(6)
C. P. Cooley	149,305	6,906	2,579	124,944	14,876
Forest J. Farmer, Sr	26,495	225		17,875	8,395
J. L. Hambrick	108,158	3,114	15,737	78,500	10,807
Gordon D. Harnett	38,282	200		19,875	18,207
Victoria F. Haynes	28,061	500		19,875	7,686
G. R. Hill (7)	267,211	45,706	3,581	210,000	7,924
S. F. Kirk	194,009	20,332	145	158,488	15,044
William P. Madar	45,850	2,295		21,595	21,960
Peggy Gordon Miller	29,220	1,100		21,875	6,245
Ronald A. Mitsch	30,720	2,000		13,700	6,245
Dominic J. Pileggi (8)	(8)	(8)		(8)	(8)
D. E. Somers	22,455	1,469		13,875	7,111
All Executive Officers and Directors as a Group	2,368,403	222,047	52,700	1,891,751	201,905

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- (1) This column includes shares owned by or jointly with family members, including 300 of Mr. Bogus' shares, 114 of Mr. Hambrick's shares, 15,593 of Mr. Kirk's shares and 19,200 of the shares held by the group, for which each has shared voting and investment power.
- (2) This column shows shares held in the profit sharing and savings plan, for which the individuals indicated have sole voting power and limited investment power.
- (3) This column shows shares covered by stock options that are currently exercisable or will be exercisable by March 31, 2005.
- (4) This column shows the indirect share ownership held by outside directors and officers under various deferred compensation plans described in this proxy statement. Some share units attributable to deferrals on or after January 1, 2004 will be paid solely in cash.
- (5) Mr. Bares resigned as a Chairman of the Board on January 3, 2005 upon his retirement from Lubrizol as an employee.
- (6) This includes 2,737 share units under a supplemental retirement plan. Share units attributable to additions to the plan on or after January 1, 2004 will be paid solely in cash.
- (7) Dr. Hill retired from Lubrizol on September 30, 2004.
- (8) Mr. Pileggi was appointed to the Board of Directors on February 21, 2005. As of February 21, 2005 Mr. Pileggi owned 1,000 shares.

Share Ownership Guidelines

We have share ownership guidelines that require executive officers to hold shares having a value between 1.5 and 4 times their fixed pay, depending on their position.

Five Percent Beneficial Owners

The following table lists each person we know to be an owner of more than 5% of our shares on December 31, 2004.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Mac-Per-Wolf Company 310 S. Michigan Ave, Suite 2600 Chicago, IL 60604	4,226,519(1)	6.3%(1)

- (1) This information was obtained from a Schedule 13G dated January 31, 2005, filed by Mac-Per-Wolf Company, which is an investment adviser registered under the Investment Advisers Act of 1940. Mac-Per-Wolf Company reported sole voting power as to 4,226,519 shares, shared voting power as to zero shares, sole investment power as to 4,225,519 shares and shared investment power as to zero shares.

EXECUTIVE COMPENSATION

The following table shows the compensation for 2004, 2003 and 2002 of each of the named executive officers for 2004.

SUMMARY COMPENSATION TABLE

Long-Term Compensation

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Name and Principal Position	Year	Annual Compensation			Awards		Payouts	
		Salary	Bonus	Other Annual Compensation (1)	Restricted Stock Awards	Securities Underlying Options/SARs (#) (2)	Long-term Incentive Payouts	All Other Compensation (3)
L. Hambrick	2004	\$623,881	\$800,000	\$128,905	0	0	N/A	\$27,922
Chairman of the Board,	2003	373,208	215,000	90,549	0	0	N/A	73,065
President and Chief Executive Officer	2002	193,076	146,000	4,777	0	16,500	N/A	10,041
W. G. Bares	2004	439,880	500,000	10,487	0	0	N/A	28,135
Retired Chairman of the Board (4)	2003	852,054	505,000	8,053	0	0	N/A	744,082
	2002	823,789	900,000	9,640	0	159,995	N/A	39,487
C. P. Cooley	2004	359,859	318,000	3,078	0	0	N/A	16,586
Senior Vice President and Chief Financial Officer	2003	313,355	131,000	3,514	\$457,500(5)	0	N/A	104,619
	2002	298,075	215,000	3,365	0	29,036	N/A	13,813
S. F. Kirk	2004	324,806	298,000	60,889	0	5,390	N/A	15,516
Senior Vice President	2003	290,390	124,000	3,745	457,500(5)	0	N/A	148,879
	2002	277,281	203,000	3,365	0	33,672	N/A	13,027
D. W. Bogus	2004	313,400	288,000	2,813	0	0	N/A	31,531(6)
Senior Vice President	2003	279,921	135,000	3,163	457,500(5)	0	N/A	118,860(6)
	2002	267,226	203,000	2,577	0	16,500	N/A	27,060(6)
George R. Hill	2004	332,896	160,000	6,398	0	0	N/A	463,663(8)
Retired Senior Vice President (7)	2003	385,742	160,000	2,524	0	0	N/A	245,319
	2002	373,207	265,000	3,054	0	40,000	N/A	23,771

(1) This column reflects the payment of taxes by us on behalf of the officer relating to the use of financial planning services. For Mr. Bares in 2003, it also includes the payment of taxes by us relating to his use of company transportation. For Mr. Hambrick in 2003 and Mr. Kirk in 2004, it also includes \$66,711 and \$41,250, respectively, for business club initiation fees. For Mr. Hambrick in 2004, it includes the payment of taxes by us on his behalf as a result of his overseas assignment pursuant to our tax equalization policy that applies to all employees on overseas assignments.

(2) This column reflects the number of Lubrizol common shares covered by stock options granted during the year.

(3) This column reflects our contributions to the profit sharing and savings plan for these executives, including accruals to the related supplemental defined contribution plan and amounts expensed under the executive death benefit program, described on page 21. These amounts have not been received by these executives. This column also reflects the dollar value of Lubrizol common shares that became distributable on March 24, 2003 under the 1991 Stock Incentive Plan pursuant to the performance share stock award program. The number and market value of shares distributable on March 24, 2003 for each of the named executive officers is as follows: Mr. Bares, 23,500 shares, \$705,000; Mr. Hambrick, 1,500 shares, \$45,000; Mr. Cooley, 3,000 shares, \$90,000; Mr. Bogus, 3,000 shares, \$90,000; Mr. Kirk, 4,500 shares, \$135,000; and Dr. Hill, 7,500 shares, \$225,000.

- (4) Mr. Bares was replaced by Mr. Hambrick as Chief Executive Officer on April 26, 2004. Mr. Bares remained Chairman of the Board, an employee and an executive officer of Lubrizol until his retirement from Lubrizol on January 3, 2005.
- (5) Effective January 1, 2003, the Organization and Compensation Committee granted 15,000 restricted shares to each of Mr. Cooley, Mr. Kirk and Mr. Bogus as part of their respective executive employment agreements. The shares will be issued only if the executive is still an employee of Lubrizol on January 1, 2008. The dollar value of the restricted shares on December 31, 2004 was \$552,900. Dividends are not paid on the restricted shares.
- (6) This amount includes the grant date value of share units credited to a supplemental retirement account described on page 21. These amounts have not been received by this executive.
- (7) Dr. Hill retired from Lubrizol on September 30, 2004.
- (8) This amount includes a payment of \$454,615 to Dr. Hill pursuant to an Early Retirement Agreement described on page 22.

Perquisites

We provide taxable financial planning services to our executive officers, which are grossed-up for taxes. We value this benefit based on the actual charge for the services, which amount is included in the executive officers' incomes. We also provide executive officers and their spouses with annual physicals. We provide some of the executive officers with club memberships used for business purposes, which are available for personal use as well. We do not allow any executive officer to use the company plane for personal use.

Stock Incentive Plans

As discussed under "Approval of The Lubrizol Corporation 2005 Stock Incentive Plan" on page 26, the Board of Directors has adopted and is submitting to the shareholders for approval the 2005 Stock Incentive Plan. The 2005 Stock Incentive Plan is intended to replace Lubrizol's 1991 Stock Incentive Plan, which was terminated by the Board with respect to future grants effective November 15, 2004. Outstanding grants under the 1991 Plan will remain effective subject to their terms.

Our 1991 Stock Incentive Plan allowed for grants of incentive and nonstatutory stock options, as well as stock appreciation rights, restricted and nonrestricted stock awards. Any of our employees and our subsidiaries' employees were eligible to be selected to participate in the plan. The plan is administered by the Organization and Compensation Committee, which selected participants and determined the type and amount of awards granted.

The number of Lubrizol common shares available under the plan during a calendar year was 1% of the outstanding shares on January 1st of that year, plus any unused shares from previous years. The option price for outstanding stock options is not less than the average of the high and the low market price of shares on the grant date. The term of each option was fixed by the committee. Participants can exercise their options 50% after one year, 75% after two years and 100% after three years. All outstanding options become fully exercisable upon a change of control.

We also have options outstanding under the 1985 Employee Stock Option Plan. However, no new options will be granted under this plan.

The following tables show option transactions for the named executive officers during 2004. No stock appreciation rights were granted, exercised or outstanding in 2004.

Option Grants in 2004

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Name	Individual Grants				Potential Realizable Value At Assumed Annual Rates Of Stock Price Appreciation for Option Term (2)	
	Number of Options Granted/SAR 2004	% of Total of Options Granted to Employees in 2004	Exercise or Base Price (1)	Expiration Date	5%	10%
J. L. Hambrick	0	N/A	N/A	N/A	N/A	N/A
W. G. Bares	0	N/A	N/A	N/A	N/A	N/A
C. P. Cooley	0	N/A	N/A	N/A	N/A	N/A
S. F. Kirk	5,390(3)	.92%	\$30.17	03/22/2009	\$102,285	\$259,211
D. W. Bogus	0	N/A	N/A	N/A	N/A	N/A
G. R. Hill	0	N/A	N/A	N/A	N/A	N/A

- (1) This column shows the average of the high and low sales prices as reported on the New York Stock Exchange on the grant date.
- (2) The assumed rates of appreciation shown are established by the Securities and Exchange Commission and are not meant to represent either past or future appreciation rates for Lubrizol shares. If the assumed annual appreciation rates were applied to the fair market value of Lubrizol shares at December 31, 2004 (\$37.055 per share), then at the end of a 10-year option term the per share market price of the shares would be \$60.36 at a 5% appreciation rate and \$96.11 at a 10% appreciation rate.
- (3) The amount shown reflects a reload option granted in an amount equal to the number of common shares used in the payment of the exercise price of another option.

Aggregated Option Exercises in 2004 and December 31, 2004 Option Values

Name	Shares Acquired On Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options At December 31, 2004		Value of Unexercised In-the-Money Options At December 31, 2004 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
J. L. Hambrick	0	N/A	74,375	4,125	\$ 505,197	\$ 12,293
W. G. Bares	67,255	\$521,603	714,872	28,750	3,986,375	85,675
C. P. Cooley	7,818	100,961	118,194	6,750	747,233	20,115
S. F. Kirk	10,000	48,975	151,738	6,750	830,294	20,115
D. W. Bogus	0	N/A	61,875	4,125	399,836	12,293
G. R. Hill	59,231	554,451	230,000	N/A	1,211,125	N/A

- (1) The amounts in these columns are the differences between the fair market value at the exercise date of the Lubrizol shares acquired through the option exercises and the exercise price of the option.
- (2) The amounts in these columns are the differences between the fair market value of Lubrizol shares at December 31, 2004 (\$37.055 per share), and the exercise price of the option. An option is considered in-the-money when the fair market value of the shares is greater than the exercise price of the option.

Long-Term Incentive Plan

Long-Term Incentive Plan Awards in 2005 (1)

Name	Number of Shares, Units Or Other Rights	Performance or Other Period Until Maturaton or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Threshold # of Shares (3)	Target # of Shares (3)	Maximum # of Shares (3)
J. L. Hambrick (4)	(1)	(2)	20,000	40,000	80,000
W. G. Bares	N/A	N/A	N/A	N/A	N/A
C. P. Cooley					