

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

( X ) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1998

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-2256

EXXON CORPORATION

\_\_\_\_\_  
(Exact name of registrant as specified in its charter)

NEW JERSEY

13-5409005

\_\_\_\_\_  
(State or other jurisdiction of  
incorporation or organization)

\_\_\_\_\_  
(I.R.S. Employer  
Identification Number)

5959 Las Colinas Boulevard, Irving, Texas

75039-2298

\_\_\_\_\_  
(Address of principal executive offices)

\_\_\_\_\_  
(Zip Code)

(972) 444-1000

\_\_\_\_\_  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all Reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                           | Outstanding as of September 30, 1998 |
|---------------------------------|--------------------------------------|
| Common stock, without par value | 2,431,229,690                        |

EXXON CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1998

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EXXON CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXXON CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF INCOME  
(millions of dollars)

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 1998                                | 1997     | 1998                               | 1997      |
| REVENUE  |                                     |          |                                    |           |
| Sales and other operating revenue,<br>including excise taxes               | \$28,254                            | \$32,381 | \$87,044                           | \$100,780 |
| Earnings from equity interests and other<br>revenue                        | 525                                 | 368      | 1,589                              | 1,400     |
| Total revenue  | 28,779                              | 32,749   | 88,633                             | 102,180   |
| COSTS AND OTHER DEDUCTIONS   |                                     |          |                                    |           |
| Crude oil and product purchases  | 10,973                              | 13,619   | 34,463                             | 43,457    |
| Operating expenses   | 2,874                               | 3,186    | 8,776                              | 9,763     |
| Selling, general and administrative expenses                               | 2,112                               | 2,088    | 6,306                              | 6,276     |
| Depreciation and depletion   | 1,337                               | 1,299    | 4,115                              | 4,068     |
| Exploration expenses, including dry holes                                  | 202                                 | 174      | 623                                | 480       |
| Interest expense   | 42                                  | 107      | 174                                | 289       |
| Excise taxes   | 3,395                               | 3,616    | 10,449                             | 10,904    |
| Other taxes and duties   | 5,699                               | 5,798    | 16,400                             | 17,182    |
| Income applicable to minority and<br>preferred interests                   | 84                                  | 96       | 259                                | 299       |
| Total costs and other deductions   | 26,718                              | 29,983   | 81,565                             | 92,718    |
| INCOME BEFORE INCOME TAXES   | 2,061                               | 2,766    | 7,068                              | 9,462     |
| Income taxes   | 661                                 | 946      | 2,158                              | 3,502     |
| NET INCOME   | \$ 1,400                            | \$ 1,820 | \$ 4,910                           | \$ 5,960  |
|  | =====                               | =====    | =====                              | =====     |
| Net income per common share (dollars)                                      | \$ 0.58                             | \$ 0.74  | \$ 2.01                            | \$ 2.40   |
| Net income per common share - assuming<br>dilution (dollars)               | \$ 0.58                             | \$ 0.73  | \$ 1.99                            | \$ 2.37   |
| Average number common shares outstanding<br>(millions)                     | 2,435                               | 2,470    | 2,443                              | 2,477     |
| Average number common shares outstanding -<br>assuming dilution (millions) | 2,465                               | 2,506    | 2,473                              | 2,510     |
| Dividends per common share   | \$ 0.410                            | \$ 0.410 | \$ 1.230                           | \$ 1.215  |

Net income per common share is based on net income less preferred stock dividends and the weighted average number of outstanding common shares.

Net income per common share - assuming dilution is based on net income and the weighted average number of outstanding common shares, including the additional common shares that would have been outstanding if dilutive potential common shares (incentive program stock and preferred stock) had been issued.

EXXON CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEET  
(millions of dollars)

|   | Sept. 30,                | Dec. 31,                 |
|---|--------------------------|--------------------------|
|   | 1998                     | 1997                     |
|   | <u>          </u>        | <u>          </u>        |
| <b>ASSETS</b>   |                          |                          |
| Current assets  |                          |                          |
| Cash and cash equivalents                                   | \$ 2,101                 | \$ 4,047                 |
| Other marketable securities                                 | 108                      | 15                       |
| Notes and accounts receivable - net                         | 9,293                    | 10,702                   |
| Inventories   |                          |                          |
| Crude oil, products and merchandise                         | 4,704                    | 4,725                    |
| Materials and supplies                                      | 758                      | 762                      |
| Prepaid taxes and expenses                                  | 1,113                    | 941                      |
| Total current assets  | <u>18,077</u>            | <u>21,192</u>            |
| Property, plant and equipment - net                         | 68,277                   | 66,414                   |
| Investments and other assets                                | 8,873                    | 8,458                    |
| <b>TOTAL ASSETS</b>   | <u>\$95,227</u><br>===== | <u>\$96,064</u><br>===== |
| <b>LIABILITIES</b>  |                          |                          |
| Current liabilities   |                          |                          |
| Notes and loans payable                                     | \$ 2,639                 | \$ 2,902                 |
| Accounts payable and accrued liabilities                    | 14,269                   | 14,683                   |
| Income taxes payable  | 1,857                    | 2,069                    |
| Total current liabilities                                   | <u>18,765</u>            | <u>19,654</u>            |
| Long-term debt  | 6,912                    | 7,050                    |
| Annuity reserves, deferred credits and<br>other liabilities | 25,791                   | 25,700                   |
| <b>TOTAL LIABILITIES</b>                                    | <u>51,468</u><br>=====   | <u>52,404</u><br>=====   |
| <b>SHAREHOLDERS' EQUITY</b>                                 |                          |                          |
| Preferred stock, without par value:                         |                          |                          |
| Authorized: 200 million shares                              |                          |                          |
| Outstanding: 2 million shares at Sept. 30, 1998             | 119                      |                          |
| 3 million shares at Dec. 31, 1997                           |                          | 190                      |
| Guaranteed LESOP obligation                                 | (125)                    | (225)                    |
| Common stock, without par value:                            |                          |                          |
| Authorized: 3,000 million shares                            |                          |                          |
| Issued: 2,984 million shares                                | 2,323                    | 2,323                    |
| Earnings reinvested   | 54,113                   | 52,214                   |
| Cumulative foreign exchange translation adjustment          | (846)                    | (1,119)                  |
| Common stock held in treasury:                              |                          |                          |
| 553 million shares at Sept. 30, 1998                        | (11,825)                 |                          |
| 527 million shares at Dec. 31, 1997                         |                          | (9,723)                  |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                           | <u>43,759</u>            | <u>43,660</u>            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>           | <u>\$95,227</u><br>===== | <u>\$96,064</u><br>===== |

The number of shares of common stock issued and outstanding at September 30, 1998 and December 31, 1997 was 2,431,229,690 and 2,456,315,299, respectively.

EXXON CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(millions of dollars)

|   | Nine Months Ended<br>September 30, |          |
|---|------------------------------------|----------|
|   | 1998                               | 1997     |
| CASH FLOWS FROM OPERATING ACTIVITIES                                    |                                    |          |
| Net income  | \$ 4,910                           | \$ 5,960 |
| Depreciation and depletion  | 4,115                              | 4,068    |
| Changes in operational working capital, excluding cash and debt         | 616                                | 229      |
| All other items - net   | 3                                  | 1,758    |
|   | <hr/>                              | <hr/>    |
| Net Cash Provided By Operating Activities                               | 9,644                              | 12,015   |
|   | <hr/>                              | <hr/>    |
| CASH FLOWS FROM INVESTING ACTIVITIES                                    |                                    |          |
| Additions to property, plant and equipment                              | (5,948)                            | (5,300)  |
| Sales of subsidiaries and property, plant and equipment                 | 304                                | 331      |
| Other investing activities - net  | (17)                               | (232)    |
|   | <hr/>                              | <hr/>    |
| Net Cash Used In Investing Activities                                   | (5,661)                            | (5,201)  |
|   | <hr/>                              | <hr/>    |
| NET CASH GENERATION BEFORE FINANCING ACTIVITIES                         | 3,983                              | 6,814    |
|   | <hr/>                              | <hr/>    |
| CASH FLOWS FROM FINANCING ACTIVITIES                                    |                                    |          |
| Additions to long-term debt   | 145                                | 483      |
| Reductions in long-term debt  | (116)                              | (220)    |
| Additions/(reductions) in short-term debt - net                         | (415)                              | (294)    |
| Cash dividends to Exxon shareholders                                    | (3,014)                            | (3,024)  |
| Cash dividends to minority interests                                    | (219)                              | (258)    |
| Changes in minority interests and sales/ (purchases) of affiliate stock | (84)                               | (87)     |
| Acquisitions of Exxon shares - net                                      | (2,236)                            | (1,555)  |
|   | <hr/>                              | <hr/>    |
| Net Cash Used In Financing Activities                                   | (5,939)                            | (4,955)  |
|   | <hr/>                              | <hr/>    |
| Effects Of Exchange Rate Changes On Cash                                | 10                                 | (29)     |
|   | <hr/>                              | <hr/>    |
| Increase/(Decrease) In Cash And Cash Equivalents                        | (1,946)                            | 1,830    |
| Cash And Cash Equivalents At Beginning Of Period                        | 4,047                              | 2,951    |
|   | <hr/>                              | <hr/>    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                              | \$ 2,101                           | \$ 4,781 |
|   | =====                              | =====    |
| SUPPLEMENTAL DISCLOSURES  |                                    |          |
| Income taxes paid   | \$ 1,738                           | \$ 2,502 |
| Cash interest paid  | \$ 618                             | \$ 576   |

EXXON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis Of Financial Statement Preparation

These unaudited condensed consolidated financial statements should be read in the context of the consolidated financial statements and notes thereto filed with the S.E.C. in the corporation's 1997 Annual Report on Form 10-K. In the opinion of the corporation, the information furnished herein reflects all known accruals and adjustments necessary for a fair statement of the results for the periods reported herein. All such adjustments are of a normal recurring nature. The corporation's exploration and production activities are accounted for under the "successful efforts" method.

During the third quarter of 1997, the corporation increased its ownership in General Sekiyu K.K. (GSK) from 49.0% to 50.1%. These financial statements reflect the consolidation of GSK retroactive to the beginning of 1997. GSK was previously accounted for as an equity company. The January 1, 1997 balance sheet of GSK had total assets of \$3.9 billion and total liabilities of \$3.2 billion. Consolidated net income was unchanged as a result of the restatement of prior quarter statements of income.

2. Recently Issued Statements Of Financial Accounting Standards

In June 1997, the Financial Accounting Standards Board released Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement requires disclosure of certain information about operating segments and geographic areas of operation. This statement, which will be adopted in 1998, will not have any effect upon the corporation's consolidated financial condition or operations.

In June 1998, the Financial Accounting Standards Board released Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which must be adopted beginning no later than 2000, establishes accounting and reporting standards for derivative instruments. The statement requires that an entity recognize all derivatives as either assets or liabilities in the financial statements and measure those instruments at fair value, and it defines the accounting for changes in the fair value of the derivatives depending on the intended use of the derivative. No decision has been made as to whether the corporation will adopt this standard before 2000. The effect on the corporation's operating results subsequent to adoption is not expected to be material. Liquidity and cash flow will not be affected.

In April 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities." The statement requires that costs of start-up activities and organizational costs be expensed as incurred. The statement is effective no later than 1999, with earlier application permitted. The corporation expects that this new requirement will not materially affect its consolidated financial condition or operations.

3. Litigation and Other Contingencies

A number of lawsuits, including class actions, were brought in various courts against Exxon Corporation and certain of its subsidiaries relating to the accidental release of crude oil from the tanker Exxon Valdez in 1989. Essentially all of these lawsuits have now been resolved or are subject to appeal.

EXXON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On September 24, 1996, the United States District Court for the District of Alaska entered a judgment in the amount of \$5.058 billion in the Exxon Valdez civil trial that began in May 1994. The District Court awarded approximately \$19.6 million in compensatory damages to fisher plaintiffs, \$38 million in prejudgment interest on the compensatory damages and \$5 billion in punitive damages to a class composed of all persons and entities who asserted claims for punitive damages from the corporation as a result of the Exxon Valdez grounding. The District Court also ordered that these awards shall bear interest from and after entry of the judgment. The District Court stayed execution on the judgment pending appeal based on a \$6.75 billion letter of credit posted by the corporation. Exxon has appealed the judgment. Exxon has also appealed the District Court's recent denial of its renewed motion for new trial. The corporation continues to believe that the punitive damages in this case are unwarranted and that the judgment should be set aside or substantially reduced by the appellate courts.

The ultimate cost to the corporation from the lawsuits arising from the Exxon Valdez grounding is not possible to predict and may not be resolved for a number of years.

German and Dutch affiliated companies are the concessionaires of a natural gas field subject to a treaty between the governments of Germany and the Netherlands under which the gas reserves in an undefined border or common area are to be shared equally. Entitlement to the reserves is determined by calculating the amount of gas which can be recovered from this area. Based on the final reserve determination, the German affiliate has received more gas than its entitlement. Arbitration proceedings, as provided in the agreements, have been underway to determine the manner of resolving the issues between the German and Dutch affiliated companies.

On July 8, 1996, an interim ruling was issued establishing a provisional compensation payment for the excess gas received. Additional compensation, if any, remains subject to further arbitration proceedings or negotiation. Other substantive matters remain outstanding, including recovery of royalties paid on such excess gas and the taxes payable on the final compensation amount. The net financial impact on the corporation is not possible to predict at this time given these outstanding issues. However, the ultimate outcome is not expected to have a materially adverse effect upon the corporation's consolidated financial condition or operations.

The U.S. Tax Court has decided the issue with respect to the pricing of crude oil purchased from Saudi Arabia for the years 1979-1981 in favor of the corporation. This decision is subject to appeal. Certain other issues for the years 1979-1988 remain pending before the Tax Court. The ultimate resolution of these issues is not expected to have a materially adverse effect upon the corporation's operations or financial condition.

Claims for substantial amounts have been made against Exxon and certain of its consolidated subsidiaries in other pending lawsuits, the outcome of which is not expected to have a materially adverse effect upon the corporation's consolidated financial condition or operations.

The corporation and certain of its consolidated subsidiaries are directly and indirectly contingently liable for amounts similar to those at the prior year-end relating to guarantees for notes, loans and performance under contracts, including guarantees of non-U.S. excise taxes and customs duties of other companies, entered into as a normal business practice, under reciprocal arrangements.

EXXON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Additionally, the corporation and its affiliates have numerous long-term sales and purchase commitments in their various business activities, all of which are expected to be fulfilled with no adverse consequences material to the corporation's operations or financial condition.

The operations and earnings of the corporation and its affiliates throughout the world have been, and may in the future be, affected from time to time in varying degree by political developments and laws and regulations, such as forced divestiture of assets; restrictions on production, imports and exports; price controls; tax increases and retroactive tax claims; expropriation of property; cancellation of contract rights and environmental regulations. Both the likelihood of such occurrences and their overall effect upon the corporation vary greatly from country to country and are not predictable.

4. Nonowner Changes in Shareholders' Equity

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," was implemented in January 1998. This statement establishes standards for reporting and display of total nonowner changes in shareholders' equity. For the corporation, total nonowner changes in shareholders' equity include net income and the change in the cumulative foreign exchange translation adjustment component of shareholders' equity. The total nonowner changes in shareholders' equity for the three months ended September 30, 1998 and 1997 were \$1,978 million and \$1,163 million, respectively. The total nonowner changes in shareholders' equity for the nine months ended September 30, 1998 and 1997 were \$5,183 million and \$4,234 million, respectively. This statement did not have any effect on the corporation's consolidated financial condition or operations.



EXXON CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FUNCTIONAL EARNINGS SUMMARY

|                                 | Third Quarter |         | First Nine Months |         |
|---------------------------------|---------------|---------|-------------------|---------|
|                                 | 1998          | 1997    | 1998              | 1997    |
|                                 | (millions)    |         | of dollars)       |         |
| Petroleum and natural gas       |               |         |                   |         |
| Exploration and production      |               |         |                   |         |
| United States                   | \$ 211        | \$ 326  | \$ 625            | \$1,215 |
| Non-U.S.                        | 274           | 569     | 1,454             | 2,079   |
| Refining and marketing          |               |         |                   |         |
| United States                   | 142           | 182     | 468               | 401     |
| Non-U.S.                        | 439           | 345     | 1,347             | 1,024   |
| Total petroleum and natural gas | 1,066         | 1,422   | 3,894             | 4,719   |
| Chemicals                       |               |         |                   |         |
| United States                   | 181           | 214     | 579               | 652     |
| Non-U.S.                        | 120           | 135     | 391               | 400     |
| Other operations                | 102           | 111     | 294               | 366     |
| Corporate and financing         | (69)          | (62)    | (248)             | (177)   |
| NET INCOME                      | \$1,400       | \$1,820 | \$4,910           | \$5,960 |
|                                 | =====         | =====   | =====             | =====   |

THIRD QUARTER 1998 COMPARED WITH THIRD QUARTER 1997

Exxon Corporation estimated third quarter 1998 net income of \$1,400 million, down 23 percent from the record \$1,820 million in third quarter 1997. On a per share basis, net income declined 22 percent to \$0.58 in the third quarter of 1998, reflecting the ongoing share repurchase program.

Exxon's net income of \$1.4 billion was down \$420 million or 23 percent, reflecting weaker crude oil prices which on average were about \$6 per barrel or 33 percent lower than last year. Earnings were also adversely affected by lower natural gas prices and lower industry refining margins in the U.S. and Asia-Pacific.

Crude oil prices continued to be weak and on average were at their lowest level since the third quarter of 1986. Exxon's U.S. and European natural gas realizations also declined to the lowest quarterly level in nearly three years. Natural gas production was up slightly from the third quarter of 1997, while liquids volumes were essentially flat. In the downstream, earnings were up 10 percent, reflecting improved marketing margins in the U.S. and Europe and higher lubes earnings. Total petroleum product sales volumes were just below the record levels of last year's third quarter as continued growth in most markets offset weakness in Asia-Pacific. Chemical earnings were down 14 percent from last year as a result of lower margins. Worldwide commodity prices continued to decline due to excess industry capacity and the slowdown in Asian economies. Earnings from other operations were essentially flat as lower coal and copper prices were offset by record quarterly production volumes in both businesses.

During the quarter, Exxon continued its active investment program, spending \$2.6 billion on capital and exploration projects.

## EXXON CORPORATION

### OTHER COMMENTS ON THIRD QUARTER COMPARISON

Exploration and production earnings were adversely affected by substantially lower crude oil prices which have fallen significantly since early in the fourth quarter of 1997. Third quarter crude prices averaged about \$6 per barrel less than the third quarter of last year. Natural gas prices were also below third quarter 1997 levels in the U.S. and Europe.

Liquids production of 1,553 kbd (thousand barrels per day) was flat versus last year as production increases from new developments in the U.K. and Azerbaijan and higher Canadian and Asia-Pacific output were offset by natural field declines in mature areas. Natural gas production of 5,219 mcf (million cubic feet per day) was 1 percent higher due to stronger European volumes.

Earnings from U.S. exploration and production were \$211 million compared with \$326 million last year. Outside the U.S., earnings from exploration and production were \$274 million, versus \$569 million in the third quarter 1997.

Petroleum product sales of 5,413 kbd were just below last year's record third quarter with higher volumes in Europe offsetting lower volumes in Asia-Pacific. Downstream earnings benefited from higher marketing margins in the U.S., Europe, and Latin America, improved lubes earnings and positive foreign exchange effects. Industry refining profitability was mixed with better European and Latin American margins offset by weakness in Asia-Pacific and the U.S.

In the U.S., refining and marketing earnings were \$142 million, down \$40 million from the prior year. Refining and marketing operations outside the U.S. earned \$439 million, an increase of \$94 million from 1997.

Chemical earnings were \$301 million compared with \$349 million in the same period last year. Margins were lower as chemical commodity prices declined further. Prime product sales volumes remained strong in most areas except Asia-Pacific.

Earnings from other operations, including coal, minerals and power, totaled \$102 million, compared to \$111 million in the third quarter of 1997. Lower copper and coal prices were offset by record production volumes. Corporate and financing expenses of \$69 million compared with \$62 million in the third quarter of last year.

During the third quarter of 1998, Exxon purchased 8.9 million shares of its common stock for the treasury at a cost of \$621 million, representing a continuation of purchases to offset shares issued in conjunction with the Company's benefit plans and programs, as well as the increased share repurchases announced in the first quarter of 1997. Shares outstanding were reduced from 2,438.4 million at the end of the second quarter of 1998 to 2,431.2 million at the end of the third quarter. Purchases are made in the open market and through negotiated transactions and may be discontinued at any time.

EXXON CORPORATION

FIRST NINE MONTHS 1998 COMPARED WITH FIRST NINE MONTHS 1997

Net income was \$4,910 million for the first nine months of 1998, a decrease of 18 percent from the \$5,960 million earned in 1997. On a per share basis, net income was \$2.01 for the first nine months of 1998 compared to \$2.40 last year.

Exploration and production earnings declined primarily due to lower crude oil prices which decreased by about \$6 per barrel versus the same period in 1997. Earnings were also negatively impacted by lower U.S. and international natural gas prices. Liquids production of 1,595 kbd was up compared to 1,589 kbd last year. Worldwide natural gas production of 5,990 mcf/d was down 114 mcf/d from the first nine months of 1997, reflecting warmer weather in Europe.

Earnings from U.S. exploration and production operations for the first nine months were \$625 million, down from \$1,215 million in 1997. Outside the U.S., exploration and production earnings of \$1,454 million declined \$625 million from last year.

Petroleum product sales of 5,412 kbd increased 22 kbd over last year, with higher sales in all major markets except Asia-Pacific. Earnings from U.S. refining and marketing operations were \$468 million, up \$67 million from 1997, reflecting improved marketing and lube margins. Outside the U.S., 1998 refining and marketing earnings for the first nine months increased \$323 million to \$1,347 million with stronger marketing and refining margins in Europe and Latin America more than offsetting weakness in Asia-Pacific. Earnings also benefited from net positive foreign exchange effects.

Chemical earnings totaled \$970 million in the first nine months of 1998 compared with \$1,052 million last year. Margins were weaker versus last year, primarily as a result of lower industry commodity prices. Despite the weaker Asian markets, prime product sales volumes of 13,024 kt (thousand metric tons) were up 1 percent from last year's record levels.

Earnings from other operations totaled \$294 million, a decrease of \$72 million from the first nine months of 1997, reflecting significantly lower copper prices, as well as lower international coal prices. 1998 year-to-date coal and copper production volumes were both at record levels. Corporate and financing expenses increased \$71 million to \$248 million, reflecting higher tax-related charges. However, the company's operating segments continued to benefit from the impact of lower effective tax rates and the favorable resolution of tax related issues.

## EXXON CORPORATION

Net cash generation before financing activities was \$3,983 million in the first nine months of 1998 versus \$6,814 million in the same period last year. Operating activities provided net cash of \$9,644 million, a decrease of \$2,371 million from the prior year, influenced by lower net income and the absence of an insurance related settlement received during the prior year. Investing activities used net cash of \$5,661 million or \$460 million more than a year ago, reflecting a higher level of capital investment.

Net cash used in financing activities was \$5,939 million in the first nine months of 1998 versus \$4,955 million for the year-ago period. The increase of \$984 million reflects higher purchases of shares of Exxon common stock and debt reductions. During the first nine months of 1998, a total of 37.5 million shares of Exxon common stock were acquired for the treasury at a cost of \$2,537 million. Purchases are made in the open market and through negotiated transactions. These purchases reflect both the increased repurchases announced in the first quarter of 1997, as well as purchases to offset shares issued in conjunction with the Company's benefit plans and programs. Purchases may be discontinued at any time.

Capital and exploration expenditures in this year's first nine months were \$7,079 million versus \$6,279 million a year ago. Capital and exploration expenditures in 1998, excluding foreign exchange rate fluctuations, are anticipated to increase about 10 percent over 1997, as attractive investment opportunities continue to be developed in each of the major business segments.

Total debt of \$9.6 billion at September 30, 1998 decreased \$0.4 billion from year-end 1997. The corporation's debt to capital ratio was 17.2 percent at the end of the first nine months of 1998, down from 17.8 percent at year-end 1997.

Over the twelve months ended September 30, 1998, return on average shareholders' equity was 17.0 percent. Return on average capital employed, which includes debt, was 14.5 percent over the same time period.

Although the corporation issues long-term debt from time to time and maintains a revolving commercial paper program, internally generated funds cover the majority of its financial requirements.

Litigation and other contingencies are discussed in note 3 to the unaudited condensed consolidated financial statements. There are no events or uncertainties known to management beyond those already included in reported financial information that would indicate a material change in future operating results or future financial condition.

The corporation, as part of its ongoing asset management program, continues to evaluate its mix of assets for potential upgrade. Because of the ongoing nature of this program, dispositions will continue to be made from time to time which will result in either gains or losses.

## EXXON CORPORATION

### YEAR 2000 ISSUE

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define a specific year. Absent corrective actions, a computer program that has date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions to various activities and operations.

The corporation initiated assessments in prior years to identify the work efforts required to assure that systems supporting the business successfully operate beyond the turn of the century. The scope of this work effort encompasses business information systems, infrastructure, and technical and field systems, including systems utilizing embedded technology, such as microcontrollers.

Plans for achieving Year 2000 compliance were finalized during 1997, and implementation work was underway at year-end. The initial phases of this work, an inventory and assessment of potential problem areas, have been essentially completed. Modification and testing phases continue, with most required system modifications to mission critical systems planned for completion by year-end 1998. Attention has also been focussed on compliance attainment efforts of vendors and others, including key system interfaces with customers and suppliers. Most key suppliers and business partners have been contacted for clarification of their Year 2000 plans.

Notwithstanding the substantive work efforts described above, the corporation could potentially experience disruptions to some operations or supplies as a result of Year 2000 issues, particularly in the first few weeks of the year 2000. Such disruptions could include impacts from potentially non-compliant systems utilized by suppliers, customers or government entities. The potential impact of such disruptions cannot be reasonably estimated. Work is underway to develop business contingency plans in order to attempt to mitigate the extent of potential disruption to business operations. This work is targeted to be essentially complete by mid-1999.

Through September 30, 1998, about \$130 million of costs had been incurred in the corporation's efforts to achieve Year 2000 compliant systems. The ultimate total cost to the corporation of achieving Year 2000 compliant systems is currently estimated to be \$250 to \$275 million, primarily over the 1997-1999 timeframe, and is not expected to be a material incremental cost impacting Exxon's operations, financial condition or liquidity.

### ECONOMIC AND MONETARY UNION IN EUROPE

The European Union is moving toward economic and monetary union in Europe with an ultimate goal of introducing a single currency called the "euro." Eleven of the fifteen member countries of the European Union will begin conversion of their currencies to the "euro" on January 1, 1999. Based on work to date, this conversion is not expected to have a material effect on the corporation's operations, financial condition or liquidity.

### FORWARD-LOOKING STATEMENTS

Statements in this report regarding future events or conditions are forward-looking statements. Actual results, including capital expenditures and the impact of the Year 2000 Issue, could differ materially due to, among other things, factors discussed in this report and in Item 1 of the corporation's most recent annual report on Form 10-K.

EXXON CORPORATION

SPECIAL ITEMS

|       | <u>Third Quarter</u>  |             | <u>First Nine Months</u> |             |
|-------|-----------------------|-------------|--------------------------|-------------|
|       | <u>1998</u>           | <u>1997</u> | <u>1998</u>              | <u>1997</u> |
|       | (millions of dollars) |             |                          |             |
| TOTAL | 0                     | 0           | 0                        | 0           |
|       | ====                  | ====        | ====                     | ====        |

EXXON CORPORATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the nine months ended September 30, 1998 does not differ materially from that discussed under Item 7A of the registrant's Annual Report on Form 10-K for 1997.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The United States, at the request of the United States Environmental Protection Agency ("EPA"), filed suit against the registrant in the United States District Court, Southern District of the State of Texas, on February 11, 1998. The EPA alleged violations of the Clean Air Act at the registrant's Baytown refinery, primarily relating to the registrant's failure to test and comply with notification requirements with respect to flares at the refinery. The EPA is seeking civil penalties and injunctive relief requiring the registrant to conduct performance testing. Exxon has agreed to pay a civil penalty of \$250,000 to settle this matter. Although the settlement is not yet final, the amount of the penalty is not expected to change.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit 10(iii)(a) - Registrant's 1993 Incentive Program, as amended September 30, 1998.

Exhibit 27 - Financial Data Schedule (included only in the electronic filing of this document).

b) Reports on Form 8-K

The registrant has not filed any reports on Form 8-K during the quarter.

EXXON CORPORATION

FORM 10-Q

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EXXON CORPORATION

Date: November 12, 1998

/s/DONALD D. HUMPHREYS

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Donald D. Humphreys, Vice President, Controller  
and Principal Accounting Officer



EXXON CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1998

INDEX TO EXHIBITS

- 10(iii)(a). Registrant's 1993 Incentive Program, as amended  
September 30, 1998.
- 27. Financial Data Schedule (included only in the electronic  
filing of this document).



THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM EXXON'S CONDENSED CONSOLIDATED BALANCE SHEET AT 9/30/98 AND EXXON'S CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED 9/30/98, THAT ARE CONTAINED IN EXXON'S FORM 10-Q FOR THE QUARTERLY PERIOD ENDED 9/30/98. THE SCHEDULE IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

|        |             |         |
|--------|-------------|---------|
| 9-MOS  |             |         |
|        | DEC-31-1998 |         |
|        | SEP-30-1998 |         |
|        |             | 2,101   |
|        |             | 108     |
|        |             | 6,597   |
|        |             | 103     |
|        |             | 5,462   |
|        | 18,077      |         |
|        |             | 133,160 |
|        |             | 64,883  |
|        |             | 95,227  |
|        | 18,765      |         |
|        |             | 6,912   |
|        | 0           |         |
|        |             | 119     |
|        |             | 2,323   |
|        |             | 41,317  |
| 95,227 |             |         |
|        |             | 87,044  |
|        | 88,633      |         |
|        |             | 34,463  |
|        |             | 34,463  |
|        | 13,514      |         |
|        |             | 0       |
|        | 174         |         |
|        |             | 7,068   |
|        |             | 2,158   |
|        | 4,910       |         |
|        |             | 0       |
|        |             | 0       |
|        |             | 0       |
|        |             | 4,910   |
|        |             | 2.01    |
|        |             | 1.99    |

EXXON CORPORATION

1993 INCENTIVE PROGRAM

Adopted by shareholders April 28, 1993  
(as last amended September 30, 1998)

GENERAL PROVISIONS

I. Purpose.

The 1993 Incentive Program is intended to help maintain and develop strong management through ownership of shares of the Corporation by key employees of the Corporation and certain of its affiliates and through incentive awards for recognition of efforts and accomplishments which contribute materially to the success of the Corporation's business interests.

II. Definitions.

In this Program, except where the context otherwise indicates, the following definitions apply:

- (1) 'Administrative authority' means one of the following, as appropriate in accordance with Section III: the Board; any committee to which the Board delegates authority to administer this Program; or, in individual cases, the Chairman of the Board or persons acting under his direction.
- (2) 'Affiliate' means (a) any subsidiary and (b) any other corporation, partnership, joint venture, or other entity in which the Corporation, directly or indirectly, owns an equity interest and which the administrative authority deems to be an affiliate for purposes of this Program (including, without limitation, for purposes of determining whether a change of employment constitutes a termination).
- (3) 'Award' means a stock option, stock appreciation right ('SAR'), restricted stock, performance award, incentive share, dividend equivalent right ('DER'), or other award under this Program.
- (4) 'Board' means the Board of Directors of the Corporation.
- (5) 'Board Compensation Committee,' hereinafter sometimes called the 'BCC,' means the committee of the Board so designated in accordance with Section IV.
- (6) 'By the grant' means by the action of the granting authority at the time of the grant of an award hereunder, or at the time of an amendment of the grant, as the case may be.
- (7) 'Code' means the Internal Revenue Code, as in effect from time to time.
- (8) 'Corporation' means Exxon Corporation, a New Jersey corporation.
- (9) 'Designated beneficiary' means the person designated by the grantee of an award hereunder to be entitled, on the death of the grantee, to any remaining rights arising out of such award. Such designation must be made in writing and in accordance with such regulations as the administrative authority may establish.
- (10) 'Detrimental activity' means activity that is determined in individual cases by the administrative authority to be detrimental to the interests of the Corporation or any affiliate.
- (11) 'Dividend equivalent right,' herein sometimes called a 'DER,' means the right of the holder thereof to receive, pursuant to the terms of the DER, credits based on the cash dividends that would be paid on the shares specified in the DER if such shares were held by the grantee, as more particularly set forth in Section XIV(1).

(12) 'Effectively granted' means, for purposes of determining the number of shares subject to an outstanding award under this Program, the number of shares subject to such award or the number of shares with respect to which the value of such award is measured, as applicable. An option that includes an SAR shall be considered a single award for this purpose.

(13) 'Effectively issued' means the gross number of shares purchased, issued, delivered, or paid free of restrictions upon the exercise, settlement, or payment of an award, or lapse of restrictions thereon, as the case may be.

(14) 'Eligible employee' means an employee of the Corporation or a subsidiary who is a director or officer, or in a managerial, professional, or other key position as determined by the granting authority.

(15) 'Employee' means an employee of the Corporation or an affiliate.

(16) 'Exchange Act' means the Securities Exchange Act of 1934, as amended from time to time.

(17) 'Fair market value' in relation to a share as of any specific time shall mean such value as reported for stock exchange transactions determined in accordance with any applicable regulations of the administrative authority in effect at the relevant time.

(18) 'Grantee' means a recipient of an award under this Program.

(19) 'Granting authority' means the Board or any appropriate committee authorized to grant and amend awards under this Program in accordance with Section V and to exercise other powers of the granting authority hereunder.

(20) 'Incentive shares' means an award of shares granted pursuant to Section XIII.

(21) 'Incentive Stock Option,' herein sometimes called an 'ISO,' means a stock option meeting the requirements of Section 422 of the Code or any successor provision.

(22) 'Performance award' means an award of shares, or of units or rights based on, payable in, or otherwise related to shares, granted pursuant to Section XII.

(23) 'Performance period' means any period specified by the grant of a performance award during which specified performance criteria are to be measured.

(24) 'Reporting person' means a person subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to equity securities of the Corporation.

(25) 'Restricted stock' means any share issued with the restriction that the holder may not sell, transfer, pledge, or assign such share and such other restrictions (which may include, but are not limited to, restrictions on the right to vote or receive dividends) which may expire separately or in combination, at one time or in installments, all as specified by the grant.

(26) 'Rule 16b-3' means Rule 16b-3 (or any successor thereto) under the Exchange Act that exempts transactions under employee benefit plans, as in effect from time to time.

(27) 'Share' means a share of Common Stock of the Corporation issued and reacquired by the Corporation or previously authorized but unissued.

(28) 'Shareholder-approved plan' means any of the plans constituting parts of any of the Incentive Programs previously approved by shareholders of the Corporation.

(29) 'Stock appreciation right,' herein sometimes called an 'SAR,' means the right of the holder thereof to receive, pursuant to the terms of the SAR, a number of shares or cash or a combination of shares and cash, based on the increase in the value of the number of shares specified in the SAR, as more particularly set forth in Section X.

(30) 'Subsidiary' means a corporation, partnership, joint venture, or other entity in which the Corporation, directly or indirectly, owns a 50% or greater equity interest.

(31) 'Terminate' means cease to be an employee, except by death, but a change of employment from the Corporation or one affiliate to another affiliate or to the Corporation shall not be considered a termination. For purposes of this Program, the administrative authority may determine that the time or date of termination is the day an employee resigns, accepts employment with another employer or otherwise indicates an intent to resign, which time or date need not necessarily be the last day on the payroll.

(32) 'Terminate normally' for purposes of this Program means terminate

(a) at normal retirement time for that employee, or

(b) with written approval of the administrative authority given in the context of recognition that all or a specified portion of the outstanding awards to that employee will not expire or be forfeited or annulled because of such termination

and, in each such case, without being terminated for cause.

(33) 'Year' means calendar year.

### III. Administration.

(1) The Board is the ultimate administrative authority for this Program, with the power to conclusively interpret its provisions and decide all questions of fact arising in its application. The Board may delegate its authority pursuant to any provision of this Program to a committee which, except in the case of the BCC, need not be a committee of the Board. Subject to the authority of the Board or an authorized committee and excluding cases involving the Chairman as grantee, the Chairman of the Board and persons acting under his direction may serve as the administrative authority under this Program for purposes of making determinations and interpretations in individual cases.

(2) The Board and any committee acting as the administrative authority under this Program can act by regulation, by making individual determinations, or by both. The Chairman of the Board and persons designated by him can act as the administrative authority under this Program only by making individual determinations.

(3) All determinations and interpretations pursuant to the provisions of this Program shall be binding and conclusive upon the individuals involved and all persons claiming under them.

(4) With respect to reporting persons, transactions under this Program are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Program or any action by an authority under this Program fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with Rule 16b-3, provided that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void, to the extent

permitted by law and deemed advisable by the appropriate authority. Each award to a reporting person under this Program shall be deemed issued subject to the foregoing qualification.

(5) An award under this Program is not transferable except, as provided in the award, by will or the laws of descent and distribution, and is not subject to attachment, execution, or levy of any kind. The designation by a grantee of a designated beneficiary shall not constitute a transfer.

(6) Any rights with respect to an award granted under this Program existing after the grantee dies are exercisable by the grantee's designated beneficiary or, if there is no designated beneficiary, by the grantee's personal representative.

(7) Except as otherwise provided herein, a particular form of award may be granted to an eligible employee either alone or in addition to other awards hereunder. The provisions of particular forms of award need not be the same with respect to each recipient.

(8) If the administrative authority believes that a grantee (a) may have engaged in detrimental activity or (b) may have accepted employment with another employer or otherwise indicated an intent to resign, the authority may suspend the exercise, vesting or settlement of all or any specified portion of such grantee's outstanding awards pending an investigation of the matter.

(9) This Program and all action taken under it shall be governed by the laws of the State of New York.

(10) Any award which was granted under a shareholder-approved plan and is still outstanding shall be interpreted and administered in accordance with the definitions and administrative provisions of this Program, including, without limitation, Sections II through V hereof.

#### IV. Board Compensation Committee (BCC).

The Board shall appoint a BCC. The BCC shall consist of two or more members of the Board, each of whom is a 'nonemployee director' within the meaning of Rule 16b-3. No award may be granted to a member of the BCC.

#### V. Right to Grant Awards; Reserved Powers.

The Board is the ultimate granting authority for this Program, with the power to select eligible employees for participation in this Program and to make all decisions concerning the grant or amendment of awards. The Board may delegate such authority in whole or in part (1) in the case of reporting persons, to the BCC and (2) in the case of eligible employees who are not reporting persons, to any committee.

#### VI. Term.

The term of this Program begins on the date shareholder approval of this Program is obtained and ends on the tenth anniversary of that date.



#### VII. Awards Grantable.

(1) Subject to the provisions of this Program, an award is grantable if, should it be granted, the total number of shares effectively granted during the year of the grant would not exceed seven tenths of one percent (0.7%) of the total number of shares of Common Stock of the Corporation outstanding (excluding shares held by the Corporation) on December 31 of the preceding year.

(2) If the total number of shares effectively issued with respect to an award is less than, or exceeds, the number of shares deemed effectively granted with respect to such award, the balance of such shares shall be, respectively, added to, or subtracted from, the maximum number of shares that may be effectively granted as awards thereafter.

(3) If the total number of shares effectively granted as awards in any year is less than the maximum number of shares that could have been so granted pursuant to the provisions of this Program, the balance of such unused shares shall be added to the maximum number of shares that may be effectively granted as awards in the following year.

(4) In addition to the foregoing, shares surrendered to the Corporation in payment of the exercise price or applicable taxes upon exercise or settlement of an award may also be used thereafter for additional awards.

(5) Notwithstanding the foregoing provisions of this Section VII, the total number of shares that may be effectively granted under stock options or stock appreciation rights to any one grantee in any one calendar year may not exceed two tenths of one percent (0.2%) of the total number of shares of Common Stock of the Corporation outstanding (excluding shares held by the Corporation) on December 31, 1996; provided, that such number of shares is doubled in accordance with Section VIII to reflect a two-for-one split of the shares on March 14, 1997.

#### VIII. Adjustments.

Whenever a stock split, stock dividend, or other relevant change in capitalization which the administrative authority determines to be dilutive to outstanding awards occurs,

(1) the number of shares that can thereafter be obtained under outstanding awards and the purchase price per share, if any, under such awards, and

(2) every number of shares used in determining whether a particular award is grantable thereafter,

shall be appropriately adjusted.

## IX. Stock Options.

One or more grantable stock options can be granted to any eligible employee. Each stock option so granted shall be subject to such terms and conditions as the granting authority shall impose, which shall include the following:

(1) The exercise price per share shall be specified by the grant, but shall in no instance be less than 100 percent of fair market value at the time of grant. Payment of the exercise price shall be made in cash, shares, or other consideration in accordance with the terms of this Program and any applicable regulations of the administrative authority in effect at the time and valued at fair market value on the date of exercise of the stock option.

(2) The stock option shall become exercisable, if at all, at the time or times specified by the grant. If the grantee has terminated other than normally before a stock option or portion thereof becomes exercisable, that stock option or portion thereof shall be forfeited and shall never become exercisable. Except as otherwise specified by the grant, a stock option shall become immediately exercisable in full upon the death of the grantee.

(3) Any stock option or portion thereof that is exercisable is exercisable for the full amount or for any part thereof, except as otherwise provided by the grant.

(4) Each stock option ceases to be exercisable, as to any share, when the stock option is exercised to purchase that share, or when a related SAR is exercised either by the holder or automatically in accordance with its terms, or when the stock option expires. To the extent an SAR included in a stock option is exercised, such stock option shall be deemed to have been exercised and shall not be deemed to have expired.

(5) A stock option or portion thereof that is exercisable shall expire in the following situations:

(a) unless clauses (b), (c) or (d) below apply, it shall expire at the earlier of:

(i) ten years after it is granted, or

(ii) any earlier time specified by the grant;

(b) if the grantee terminates, but does not terminate normally, it shall expire at the time of termination;

(c) if the grantee is determined to have engaged in detrimental activity, it shall expire as of the date of such determination; or

(d) if the grantee dies, it shall expire at the earlier of:

(i) five years after the grantee's death, or

(ii) any earlier time specified by the grant;

but, in any case, no later than ten years after it is granted.

(6) If a grantee terminates other than normally, (a) the administrative authority may refuse to deliver shares in settlement of any pending stock option exercise and (b) the granting authority may require the grantee to repay to the Corporation an amount equal to the spread on any stock option exercised by the grantee during the six-month period immediately preceding such termination. For purposes of the foregoing subsection (6)(b), 'spread' means the difference between the aggregate stock option exercise price and the fair market value of the underlying shares on the date such option is exercised.

(7) All stock options granted hereunder are hereby designated as ISOs except to the extent otherwise specified by the grant and except to the extent otherwise specified in this Section IX(7). To the extent that the aggregate fair market value of shares with respect to which stock options designated as ISOs are exercisable for the first time by any grantee during any year (under all plans of the Corporation and any affiliate thereof) exceeds \$100,000, such stock options shall be treated as not being ISOs. The foregoing shall be applied by taking stock options into account in the order in which they were granted. For the purposes of the foregoing, the fair market value of any share shall be determined as of the time the stock option with respect to such share is granted. In the event the foregoing results in a portion of a stock option designated as an ISO exceeding the above \$100,000 limitation, only such excess shall be treated as not being an ISO.

For each year in which this Program is in effect, the number of shares that may be effectively granted as ISOs may not exceed seven tenths of one percent (0.7%) of the total number of shares of Common Stock of the Corporation outstanding (excluding shares held by the Corporation) on the December 31 preceding the date on which shareholder approval of this Program is obtained; provided, that beginning with the year 1998, the annual number of shares determined as aforesaid shall be doubled in accordance with Section VIII to reflect a two-for-one split of the shares on March 14, 1997. If the number of shares effectively granted as ISOs in any year is less than the number of shares that could have been so granted pursuant to this paragraph, the balance of such unused shares may be added to the maximum number of shares that may be effectively granted as ISOs the following year.

A stock option designated as an ISO, or portion thereof, that fails or ceases to qualify as such under the Code shall otherwise remain valid according to its terms as a non-ISO under this Program.

#### X. Stock Appreciation Rights.

(1) An SAR may be granted to an eligible employee as a separate award hereunder. Any such SAR shall be subject to such terms and conditions as the granting authority shall impose, which shall

include provisions that (a) such SAR shall entitle the holder thereof, upon exercise thereof in accordance with such SAR and the regulations of the administrative authority, to receive from the Corporation that number of shares having an aggregate value equal to the excess of the fair market value, at the time of exercise of such SAR, of one share over the exercise price per share specified by the grant of such SAR (which shall in no instance be less than 100 percent of fair market value at the time of grant) times the number of shares specified in such SAR, or portion thereof, which is so exercised; and (b) such SAR shall be exercisable, or be forfeited or expire, upon the same conditions set forth for freestanding options in Section IX, paragraphs (2),(3),(4),(5), and (6).

(2) Any stock option granted under this Program may include an SAR, either at the time of grant or by amendment. An SAR included in a stock option shall be subject to such terms and conditions as the granting authority shall impose, which shall include provisions that (a) such SAR shall be exercisable to the extent, and only to the extent, the stock option is exercisable; and (b) such SAR shall entitle the optionee to surrender to the Corporation unexercised the stock option in which the SAR is included, or any portion thereof, and to receive from the Corporation in exchange therefor that number of shares having an aggregate value equal to the excess of the fair market value, at the time of exercise of such SAR, of one share over the exercise price specified in such stock option times the number of shares specified in such stock option, or portion thereof, which is so surrendered.

(3) In lieu of the right to receive all or any specified portion of such shares, an SAR may entitle the holder thereof to receive the cash equivalent thereof as specified by the grant.

(4) An SAR may provide that such SAR shall be deemed to have been exercised at the close of business on the business day preceding the expiration of such SAR or the related stock option, if any, if at such time such SAR has positive value and would have expired in accordance with the conditions set forth in Section IX(5)(a).

#### XI. Restricted Stock.

(1) An award of restricted stock may be granted hereunder to an eligible employee, for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant. The terms and conditions of restricted stock shall be specified by the grant.

(2) Any restricted stock issued hereunder may be evidenced in such manner as the administrative authority in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of restricted stock awarded hereunder, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such award.

(3) Except as otherwise specified by the grant, if a holder of record of restricted stock terminates, but does not terminate normally, all shares of restricted stock (whether or not stock certificates have been issued) then held by such holder and then subject to restriction shall be forfeited by such holder and reacquired by the Corporation. Except as otherwise specified by the

grant, if a holder of record of restricted stock terminates normally or dies, any and all remaining restrictions with respect to such restricted stock shall expire. Notwithstanding the foregoing, if a holder of record of restricted stock is determined to have engaged in detrimental activity, all shares of restricted stock (whether or not stock certificates have been issued) then held by such holder and then subject to restriction shall be forfeited by such holder as of the date of such determination and shall be reacquired by the Corporation.

#### XII. Performance Awards.

(1) Performance awards may be granted hereunder to an eligible employee, for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant. The terms and conditions of performance awards, which may include provisions establishing performance periods, performance criteria to be achieved during a performance period, and maximum or minimum settlement values, shall be specified by the grant.

(2) Performance awards may be valued by reference to the value of Common Stock of the Corporation or according to any other formula or method. Performance awards may be paid in cash, shares, or other consideration, or any combination thereof. The extent to which any applicable performance criteria have been achieved shall be conclusively determined by the administrative authority. Performance awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining performance criteria.

(3) Except as otherwise specified by the grant, if the grantee terminates, but does not terminate normally, any performance award or installment thereof not payable prior to the grantee's termination shall be annulled as of the date of termination. If the grantee is determined to have engaged in detrimental activity, any performance award or installment thereof not payable prior to the date of such determination shall be annulled as of such date.

#### XIII. Incentive Shares.

(1) An incentive award may be granted hereunder in the form of shares. Incentive shares may be granted to an eligible employee for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant. The terms and conditions of incentive shares shall be specified by the grant.

(2) Incentive shares may be paid to the grantee in a single installment or in installments and may be paid at the time of grant or deferred to a later date or dates. Each grant shall specify the time and method of payment as determined by the granting authority, provided that no such determination shall authorize delivery of shares to be made later than the tenth anniversary of the grantee's date of termination. The granting authority, by amendment of the grant prior to delivery, can modify the method of payment for any incentive shares, provided that the delivery of any incentive shares shall be completed not later than the tenth anniversary of the grantee's date of termination.

(3) If any incentive shares are payable after the grantee dies, such shares shall be payable (a) to the grantee's designated beneficiary or, if there is no designated beneficiary, to the grantee's personal representative, and (b) either in the form specified by the grant or otherwise, as may be determined by the administrative authority.

(4) Any grant of incentive shares is provisional, as to any share, until delivery of the certificate representing such share. If, while the grant is provisional,

(a) the grantee terminates, but does not terminate normally, or

(b) the grantee is determined to have engaged in detrimental activity,

the grant shall be annulled as of the date of termination, or the date of such determination, as the case may be.

#### XIV. Dividend Equivalent Rights; Interest Equivalentents.

(1) A DER may be granted hereunder to an eligible employee, as a component of another award or as a separate award. The terms and conditions of DERs shall be specified by the grant. Dividend equivalentents credited to the holder of a DER may be paid currently or may be deemed to be reinvested in additional shares (which may thereafter accrue additional dividend equivalentents). Any such reinvestment shall be at fair market value at the time thereof. DERs may be settled in cash or shares or a combination thereof, in a single installment or installments. A DER granted as a component of another award may provide that such DER shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other award, and that such DER shall expire or be forfeited or annulled under the same conditions as such other award. A DER granted as a component of another award may also contain terms and conditions different from such other award.

(2) Any award under this Program that is settled in whole or in part in cash on a deferred basis may provide by the grant for interest equivalentents to be credited with respect to such cash payment. Interest equivalentents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

#### XV. Other Awards.

Other forms of award based on, payable in or otherwise related in whole or in part to shares may be granted to an eligible employee under this Program if the granting authority determines that such awards are consistent with the purposes and restrictions of this Program. The terms and conditions of such awards shall be specified by the grant. Such awards shall be granted for no cash consideration, for such minimum consideration as may be required by applicable law, or for such other consideration as may be specified by the grant.

#### XVI. Amendments to This Program.

The Board can from time to time amend or terminate this Program, or any provision hereof, except that approval of the shareholders of the Corporation shall be required for any amendment (1) to increase the maximum number of shares that may be effectively granted as awards hereunder; (2) to decrease the minimum exercise price per share of a stock option or SAR; or (3) for which such approval is otherwise necessary to comply with any applicable law, regulation, or listing requirement, or to qualify for an exemption or characterization that is deemed desirable by the Board.

#### XVII. Amendments to Awards.

Any award which was granted under a shareholder-approved plan and is still outstanding may, subject to any requirements of applicable law or regulation, be amended by action of the granting authority so as to incorporate in that award any terms that might have been incorporated in an award under this Program.

#### XVIII. Withholding Taxes.

The Corporation shall have the right to deduct from any cash payment made under this Program any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the Corporation to deliver shares or securities of the Corporation upon exercise of a stock option or SAR, upon settlement of a performance award or DER, upon delivery of restricted stock or incentive shares, or upon exercise, settlement, or payment of any other award under this Program, that the grantee of such award pay to the Corporation such amount as may be requested by the Corporation for the purpose of satisfying any liability for such withholding taxes. Any award under this Program may provide by the grant that the grantee of such award may elect, in accordance with any applicable regulations of the administrative authority, to pay a portion or all of the amount of such minimum required or additional permitted withholding taxes in shares. The grantee shall authorize the Corporation to withhold, or shall agree to surrender back to the Corporation, on or about the date such withholding tax liability is determinable, shares previously owned by such grantee or a portion of the shares that were or otherwise would be distributed to such grantee pursuant to such award having a fair market value equal to the amount of such required or permitted withholding taxes to be paid in shares.

#### XIX. Grant of Awards to Employees Who are Foreign Nationals.

Without amending this Program, but subject to the limitations specified in Sections III(4) and XVI, the granting authority can grant or amend, and the administrative authority can administer, annul, or terminate, awards to eligible employees who are foreign nationals on such terms and conditions different from those specified in this Program as may in its judgment be necessary or desirable to foster and promote achievement of the purposes of this Program.

