As filed with the Securities and Exchange Commission on September 29, 1997
Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM S-4
REGISTRATION STATEMENT
UNDER

THE SECURITIES ACT OF 1933

TEXACO INC.
(Exact name of Registrant as specified in its charter)

Delaware	291	74-1383447
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification No.)

2000 Westchester Avenue
White Plains, New York 10650
(914) 253-4000
(Address, Including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

Carl B. Davidson
Vice President and Secretary
Texaco Inc.
2000 Westchester Avenue
White Plains, New York 10650
(914) 253-4000
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

William L. Rosoff	copies to: Terry L. Anderson	G. Michael O'Leary
Davis Polk & Wardwell	General Counsel and Secretary	Andrews & Kurth L.L.P.
450 Lexington Avenue	Monterey Resources, Inc.	4200 Texas Commerce Tower
New York, New York 10017	5201 Truxtun Avenue	Houston, Texas 77002
(212) 450-4000	Suite 100	(713) 220-4200
	Bakersfield, California 93309	
	(805) 322-3992	

Approximate Date of Commencement of Proposed Sale to Public: As soon as practicable after the effectiveness of this Registration Statement and the effective time (the "Effective Time") of the merger (the "Merger") of a wholly-owned subsidiary of the Registrant with and into Monterey Resources, Inc. ("Monterey") as described in the Agreement and Plan of Merger dated as of August 17, 1997.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee(3)
Common Stock, par value $3.125 per share...	23,908,272	$49.0629(2)	$1,173,010,170	$119,060

(1) Represents the maximum number of shares of Common Stock, par value $3.125 per share, of the Registrant ("Texaco Common Stock") to be issued in connection with the Merger in exchange for shares of Common Stock, par value $0.01 per share, of Monterey ("Monterey Common Stock"), determined on the basis of the maximum exchange ratio applicable in the Merger (0.4242 shares of Texaco Common Stock for each share of Monterey Common Stock) and the number of outstanding shares of Monterey Common Stock and shares issuable in respect of Monterey stock options on September 26, 1997.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f)(1) and Rule 457(c) of the Securities Act of 1933,

as amended (the "Securities Act"), based on the average of the high and low prices of Monterey Common Stock on September 26, 1997 on the New York Stock Exchange, which was $20.8125.

(3) The registration fee for the securities registered hereby of $119,060 is being paid herewith. This fee has been calculated pursuant to Rule 457(f) under the Securities Act, as one thirty-third of one percent of $1,173,010,170, less $236,398 previously paid to the Commission in connection with Monterey's Preliminary Proxy Statement filing on September 8, 1997.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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TEXACO INC.
CROSS REFERENCE SHEET

ITEM NUMBER IN FORM S-4	LOCATION IN PROXY STATEMENT/PROSPECTUS
A. INFORMATION ABOUT THE TRANSACTION	
1. Forepart of Registration Statement and Outside Front Cover Page of Prospectus	Facing Page of the Registration Statement; Outside Front Cover Page of Proxy Statement/Prospectus**
2. Inside Front and Outside Back Cover Pages of Prospectus	Table of Contents; Where You Can Find More Information
3. Risk Factors, Ratio of Earnings to Fixed Charges and Other Information	Outside Front Cover Page of Proxy Statement/ Prospectus; Summary; Selected Historical Financial Data; Comparative Per Share Data; Risk Factors; The Merger; Comparative Per Share Market Price and Dividend Information; Special Meeting; Business of Monterey; Business of Texaco; Where You Can Find More Information
4. Terms of the Transaction	Outside Front Cover Page of Proxy Statement/ Prospectus; Summary; The Merger; The Merger Agreement; Comparison of Stockholder Rights; Description of Texaco Capital Stock
5. Pro Forma Financial Information	*
6. Material Contacts with the Company Being Acquired	Summary; The Merger; The Merger Agreement
7. Additional Information Required for Reoffering by Persons and Parties Deemed to be Underwriters	*
8. Interests of Named Experts and Counsel	*
9. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	*
B. INFORMATION ABOUT THE REGISTRANT	
10. Information with Respect to S-3 Registrants	Summary; Business of Texaco; Where You Can Find More Information
11. Incorporation of Certain Information by Reference	Where You Can Find More Information
12. Information with Respect to S-2 and S-3 Registrants	*
13. Incorporation of Certain Information by Reference	*
14. Information with Respect to Registrants Other Than S-3 or S-2 Registrants	*
C. INFORMATION ABOUT THE COMPANY BEING ACQUIRED	
15. Information with Respect to S-3 Companies	*
16. Information with Respect to S-2 or S-3 Companies	*
17. Information with Respect to Companies Other Than S-2 or S-3 Companies	Outside Front Cover Page of Proxy Statement/ Prospectus; Summary; Comparative Per Share Market

	Price and Dividend Information; Business of Monterey; Monterey Selected Historical Financial and Operating Data; Monterey Management's Discussion and Analysis of Financial Condition and Results of Operations; Security Ownership of Certain Beneficial Holders; Security Ownership of Directors and Executive Officers; Where You Can Find More Information; Financial Statements and Financial Statement Schedules
D. VOTING AND MANAGEMENT INFORMATION	
18. Information if Proxies, Consents or Authorizations are to be Solicited.....	Outside Front Cover Page of Proxy Statement/ Prospectus; Summary; Interests of Certain Persons in the Merger and Related Matters; The Merger; Special Meeting; Security Ownership of Certain Beneficial Holders; Security Ownership of Directors and Executive Officers; Where You Can Find More Information
19. Information if Proxies, Consents or Authorizations are not to be Solicited or in an Exchange Offer.....	*

* Omitted because the Item is inapplicable or the answer thereto is negative.

** Indicates that the registrant has departed from the Item in certain respects by virtue of the "Plain English" format of the Proxy Statement/Prospectus.

[Monterey Logo]

Special Meeting of Stockholders

MERGER PROPOSED-YOUR

VOTE IS VERY IMPORTANT

The Board of Directors of Monterey Resources, Inc. has unanimously approved a merger between Monterey and a subsidiary of Texaco Inc. The Board unanimously believes that the merger provides Monterey stockholders with both fair value for their investment in the company and the chance to benefit from the company's rapidly expanding operations, as supported by the diversity of opportunities and financial strength of a major worldwide energy company in Texaco.

If the merger is completed, each of the outstanding shares of Monterey's common stock will be converted into between 0.3471 and 0.4242 shares of Texaco common stock depending on the price of Texaco's common stock during a period shortly before the merger. We estimate that if all Monterey and Texaco stock options are exercised, the shares of Texaco common stock to be issued to Monterey stockholders will represent between approximately 3.5% and 4.2% of the outstanding Texaco common stock after the merger.

This Proxy Statement/Prospectus provides you with detailed information about the proposed merger. In addition, you may obtain information about Monterey and Texaco from documents filed with the Securities and Exchange Commission. I encourage you to read this entire document carefully before you decide how you wish to vote.

The date, time and place of the Special Meeting:

November 4, 1997
10:00 a.m.
The Doubletree Inn
3100 Camino Del Rio Court
Bakersfield, California

At the Special Meeting, Monterey stockholders will be asked to approve the merger and the related merger agreement. The affirmative vote of the holders of a majority of the outstanding shares of Monterey common stock is required to approve the merger and related merger agreement. At September 26, 1997, the record date for the vote, there were outstanding 54,791,751 shares of Monterey common stock. The merger cannot be completed unless Monterey stockholders approve it.

Whether or not you plan to attend the Special Meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of the merger and the related merger agreement. If you fail to return your card, the effect will be a vote against the merger. Your vote is very important.

On behalf of the Board, I urge you to be represented in person or by proxy at this meeting, regardless of the number of shares you own. Please complete, sign, date and return the enclosed proxy card as soon as possible. This action will not limit your right to vote in person at the meeting if you wish to do so.

On behalf of your Board of Directors, I thank you for your support and urge you to vote "for" approval of the merger and the related merger agreement.

/s/ R. Graham Whaling
- --------------------------------
R. Graham Whaling
Chairman of the Board and
Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulators have approved the Texaco common stock to be issued in the merger or determined if this Proxy Statement/Prospectus is accurate or adequate. Any representation to the contrary is a criminal offense. See "Risk Factors" beginning on page 9 for a discussion of certain matters which should be considered by Monterey stockholders with respect to the merger.

MONTEREY RESOURCES, INC.
5201 TRUXTUN AVENUE
BAKERSFIELD, CALIFORNIA 93309

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON NOVEMBER 4, 1997

To the Stockholders of Monterey Resources, Inc.:

A Special Meeting of the holders of common stock of Monterey Resources, Inc., a Delaware corporation (the "Company"), will be held at 10:00 a.m. local time, on Tuesday, November 4, 1997 at The Doubletree Inn, 3100 Camino Del Rio Court, Bakersfield, California. At the Special Meeting, the holders of common stock of the Company will:

1. Consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of August 17, 1997 (the "Merger Agreement"), relating to the merger ("Merger") of a recently formed wholly owned subsidiary of Texaco Inc., a Delaware corporation ("Texaco"), with and into the Company, with the Company surviving the Merger as a wholly owned subsidiary of Texaco. In the Merger, each outstanding share of the Company's common stock, par value $0.01 per share, will be converted into the right to receive between 0.3471 and 0.4242 shares of common stock, par value $3.125 per share, of Texaco, depending on the average closing price of Texaco common stock as reported on the New York Stock Exchange during the 30 consecutive trading day period ending on and including the fifth trading day prior to the effective time of the Merger. A description of the Merger and the Merger Agreement is contained in the accompanying Proxy Statement/Prospectus, which includes a copy of the Merger Agreement; and

2. Transact such other business as may properly come before the Special Meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on September 26, 1997 as the record date for determining which stockholders are entitled to notice of, and to vote at, the Special Meeting or any adjournments thereof. Complete lists of such stockholders will be available for examination at the offices of the Company during normal business hours by any holder of the Company's common stock, for any purpose relevant to the Special Meeting, for a period of 10 days prior to the Special Meeting.

THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT. The affirmative vote of the holders of the majority of the outstanding shares of the Company's common stock is required to approve and adopt the Merger Agreement and the Merger.

IF YOU DO NOT SEND IN YOUR PROXY OR VOTE AT THE SPECIAL MEETING, IT WILL HAVE THE SAME EFFECT AS IF YOU VOTED AGAINST THE MERGER.

Holders of the Company's common stock, even if they expect to be present at the Special Meeting, are requested to sign, vote and date the enclosed proxy and return it promptly in the enclosed envelope. Any stockholder giving a proxy has the power to revoke it at any time prior to the Special Meeting. Stockholders who are present at the Special Meeting may withdraw their proxies and vote in person.

By Order of the Board of Directors,

September 29, 1997

Terry L. Anderson,
Secretary

TABLE OF CONTENTS

ANNEX A - Agreement and Plan of Merger
ANNEX B - Opinion of Goldman, Sachs & Co.

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why is Monterey proposing the merger? How will I benefit?

A: The merger provides Monterey stockholders with both fair value for their investment in the company and the opportunity to benefit, as stockholders of Texaco, from the diversity of Texaco's opportunities, financial strength and technological expertise.

Q: What do I need to do now?

A: Please mail your signed proxy card in the enclosed return envelope as soon as possible, so that your shares may be represented at the Special Meeting. In addition, you may attend and vote at the Special Meeting in person, whether or not you have signed and mailed your proxy card. Do not send in your stock certificates now - if the merger is completed, you will receive written instructions on how to exchange them.

Q: What do I do if I want to change my vote?

A: Just send in a later-dated, signed proxy card before the Special Meeting or attend the meeting in person and vote.

Q: If my shares are held in "street name" by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares, following the directions provided by your broker. Without instructions, your shares will not be voted.

Q: Please explain what I will receive in the merger.

A: If the merger is completed, Monterey stockholders will have the right to receive between 0.3471 and 0.4242 shares of Texaco common stock in exchange for each share of Monterey common stock they own. Stockholders who elect to participate in Texaco's book entry transfer program will have any fractional Texaco shares credited to their account. Stockholders who do not participate in that program will receive cash for any fractional Texaco shares.

The exact number of Texaco shares to be received per Monterey share will be determined by dividing $21 by the average closing price of Texaco common stock on the New York Stock Exchange for the thirty consecutive trading day period ending on and including the fifth trading day prior to the effective date of the merger. In no event will the number of Texaco shares to be received be less than 0.3471, nor more than 0.4242.

Example:

- If the thirty day average closing price of Texaco common stock is $52, each holder of Monterey common stock would be entitled to receive 0.4038 shares of Texaco common stock.

- If the thirty day average closing price of Texaco common stock is $62, each holder of Monterey common stock would be entitled to receive 0.3471 shares of Texaco common stock, and not 0.3387 shares.

All of the above amounts take into account Texaco's two-for-one stock split, effective September 29, 1997.

Q: Will I owe any federal income tax as a result of the merger?

A: No, unless you receive cash for fractional Texaco shares. Each Monterey stockholder will have to pay tax on the difference, if any, between cash received for fractional shares and such stockholder's adjusted tax basis in the stockholder's fractional share interest. The exchange of shares by Monterey stockholders will otherwise be tax-free to Monterey stockholders for federal income tax purposes.

Q: When do you expect the merger to be completed?

A: Monterey and Texaco are working toward completing the merger as quickly as possible. In addition to Monterey stockholder approval, Monterey and Texaco must also obtain certain regulatory approvals. We hope to complete the merger by November 30, 1997.

Q: What happens to my future dividends?

A: We expect no changes in Monterey's or Texaco's dividend policies before the merger. The payment of dividends by Texaco in the future will depend on business conditions, its financial condition and earnings, and other factors.

Q: Whom should I call with questions?

A. If you have any questions about the merger, please call Corporate Investor Communications, Inc., toll-free at (888) 881-0530.

SUMMARY

This summary highlights selected information from this Proxy Statement/Prospectus and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should read carefully this entire document and the documents to which we have referred you. See "Where You Can Find More Information" on page 66. We have included page references in parentheses to direct you to a more complete description of the topics presented in this summary.

The Companies

Monterey Resources, Inc.
5201 Truxtun Avenue
Bakersfield, California 93309

Monterey is an independent oil and gas company engaged in the production, development and acquisition of oil and natural gas, principally in the State of California. Monterey was formed in 1996 to own the properties and conduct the business of the Western Division of Santa Fe Energy Resources, Inc.

Texaco Inc.
200 Westchester Avenue
White Plains, New York 10650

Texaco (together with its subsidiaries and affiliates) is a vertically integrated enterprise, principally engaged in the worldwide exploration for, and production, transportation, refining and marketing of crude oil, natural gas and petroleum products.

Monterey's Reasons for the Merger

The Monterey Board unanimously believes that the merger provides Monterey stockholders with both fair value for their investment in Monterey and the chance to benefit from Monterey's expanding operations, as supported by the diversity of opportunities and financial strength of a major oil and gas company in Texaco. In reaching its conclusion to approve the merger and the Merger Agreement and recommend that Monterey stockholders approve the same, the Board considered and analyzed a number of factors which are summarized under "The Merger--Monterey's Reasons for the Merger; Recommendation of the Monterey Board" that begins on page 12.

The Special Meeting

The Special Meeting will be held at 10:00 a.m. on November 4, 1997. At the Special Meeting, Monterey stockholders will be asked to approve the merger and the related merger agreement. The Special Meeting will be held at The Doubletree Inn, 3100 Camino Del Rio Court, Bakersfield, California.

Recommendation to Monterey Stockholders

The Monterey Board of Directors believes that the merger is in your best interests and unanimously recommends that you vote "for" approval of the merger and the related merger agreement.

Record Date; Voting Power

You are entitled to vote at the Special Meeting if you owned shares as of the close of business on September 26, 1997, the Record Date.

On the Record Date, there were 54,791,751 shares of Monterey common stock entitled to vote at the Special Meeting. There were approximately 33,700 holders of record on the Record Date. Monterey stockholders will have one vote at the Special Meeting for each share of Monterey common stock they own on the Record Date.

Stockholder Vote Required to Approve the Merger

The favorable vote of the holders of a majority of the outstanding shares of Monterey common stock is required to approve the merger and the related merger agreement. Your failure to vote will have the effect of a vote against the merger. A vote of Texaco stockholders is not required.

Share Ownership of Management and Certain Stockholders

On August 31, 1997, Monterey directors, executive officers and their affiliates owned and were entitled to vote 5,183,539 shares of Monterey common stock, or approximately 9.5% of the shares of Monterey common stock outstanding on that date.

The directors of Monterey have indicated that they intend to vote the Monterey common stock owned by them "for" approval of the merger and the related merger

agreement.

The Merger

The merger agreement (a copy of which is included as Annex A) is attached at the back of this Proxy Statement/Prospectus. We encourage you to read this agreement as it is the legal document that governs the merger.

What Monterey Stockholders Will Receive in the Merger (See page 9)

If Monterey's stockholders approve the merger, Monterey stockholders will have the right to receive between 0.3471 and 0.4242 shares of Texaco common stock for each share of Monterey common stock they own.

The exact number of Texaco shares to be received per Monterey share will be determined by dividing $21 by the average closing price of the Texaco common stock on the New York Stock Exchange for the thirty consecutive trading day period ending on and including the fifth trading day prior to the effective date of the merger. However, in no event will the number of Texaco shares to be received be less than 0.3471, nor more than 0.4242. These amounts take into account Texaco's two-for-one stock split effective September 29, 1997.

Monterey and Texaco hope to complete the merger shortly after the Special Meeting. If the merger is completed within five trading days after the Special Meeting, the exact number of Texaco shares to be received per Monterey share will be known before Monterey stockholders vote on the merger.

When Monterey stockholders surrender their shares after the merger in exchange for Texaco shares, they can elect to participate in Texaco's book-entry transfer program. Participants in that program will have any fractional Texaco shares credited to their account. All other stockholders will instead receive a check in the amount of the net proceeds from the sale of those fractional shares in the market.

Monterey stockholders should not send in their stock certificates for exchange until instructed to do so.

What Current Texaco Stockholders Will Hold After the Merger

Texaco stockholders will continue to own their existing shares after the merger. Texaco stockholders should not send in their stock certificates in connection with the merger.

Ownership of Texaco After the Merger

Texaco will issue between approximately 19.1 and 23.3 million shares of Texaco common stock to Monterey stockholders in the merger. Following the merger, and assuming all Monterey and Texaco stock options are exercised, Monterey stockholders will own between approximately 3.5% and 4.2% of the outstanding Texaco common stock. These numbers are based on the number of shares of Monterey and Texaco common stock outstanding on August 31, 1997.

Interests of Monterey's Officers and Directors in the Merger (See page 22)

When considering the recommendation by the Monterey Board that Monterey stockholders vote "for" approval of the merger and the related merger agreement, you should be aware that Monterey directors and certain officers have agreements, stock options and other benefit plans that may provide them with interests in the merger that are different from, and in addition to, yours. The Board of Monterey was aware of these interests and considered them in approving the merger and the related merger agreement.

Conditions to the Merger (See page 27)

The merger will be completed if certain conditions, including the following, are met:

(1) the approval of Monterey stockholders;

(2) the absence of legal restraints or prohibitions that prevent the completion of the merger; and

(3) the receipt of legal opinions from Monterey's and Texaco's counsel regarding certain tax matters.

Termination of the Merger Agreement (See page 28)

The Boards of Directors of Monterey and Texaco may jointly agree in writing to terminate the merger agreement without completing the merger. The merger agreement may also be terminated in certain other circumstances, as follows:

(1) Either company may terminate the merger agreement if:

(a) the merger is not completed by March 31, 1998. However, neither Monterey nor Texaco may terminate the merger agreement if that party's breach is the reason the merger has not been completed;

(b) the Monterey stockholders do not approve the merger; or

(c) a law or final court order prohibits the merger.

(2) Only Texaco may terminate the merger agreement if:

(a) the Monterey Board withdraws or modifies its recommendation in favor of the merger in a manner adverse to Texaco;

(b) Monterey does not promptly call the Special Meeting; or

(c) Monterey solicits alternative acquisition proposals from, negotiates with, or discloses confidential information to, certain persons in violation of the merger agreement.

Termination Fee and Expenses (See page 29)

Monterey must pay Texaco a termination fee of $35 million in cash if the merger agreement is terminated in the following circumstances:

- the stockholders of Monterey do not approve the merger (but only if both a new acquisition proposal with respect to Monterey is announced prior to the Special Meeting and Monterey enters into, or announces its intention to enter into, an agreement relating to a new acquisition proposal before June 30, 1998);
- the Monterey Board withdraws or modifies its recommendation in favor of the merger in a manner adverse to Texaco;
- Monterey does not promptly call the Special Meeting; or
- Monterey solicits alternative acquisition proposals from, negotiates with, or discloses confidential information to, certain persons in violation of the merger agreement.

Regulatory Approvals (See page 19)

Monterey and Texaco are both required to make a filing with United States antitrust authorities. The merger cannot be completed until a specified period (typically thirty days, although it may be shorter or longer in some circumstances) has passed after the date of the filing.

Fairness Opinion of Financial Advisor (See page 14)

In deciding to approve the merger, Monterey's Board considered an opinion from its financial advisor, Goldman, Sachs & Co., that the number of shares of Texaco common stock to be received by Monterey stockholders in exchange for each share of Monterey common stock is fair to the Monterey stockholders. A copy of this opinion is attached as Annex B to this Proxy Statement/Prospectus. We encourage you to read this opinion carefully and in its entirety before voting on the merger.

Certain U.S. Federal Income Tax Consequences (See page 18)

Monterey and Texaco have structured the merger so that neither Monterey nor its stockholders will recognize gain or loss for federal income tax purposes as a result of the merger, except for taxes payable by each Monterey stockholder on the difference, if any, between cash received for fractional shares and such stockholder's adjusted tax basis in the stockholder's fractional share interest. Monterey's and Texaco's obligation to complete the merger is conditional upon receipt of a legal opinion from their counsel as to such tax consequences. Monterey and Texaco may each waive these conditions. However, in the event of such waiver, approval of the Monterey stockholders would be resolicited.

Tax matters are very complicated and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisors for a full understanding of the tax consequences of the merger to you.

No Appraisal Rights (See page 20)

Under Delaware law, Monterey stockholders do not have any right to an appraisal of the value of their shares in connection with the merger.

Comparative Per Share Market Price Information (See page 21)

Monterey and Texaco common stock are both listed on the New York Stock Exchange. On August 15, 1997, the last full trading day prior to the public announcement of the proposed merger, Monterey common stock closed at $15.06 and Texaco common stock closed at $55 (giving retroactive effect to Texaco's two-for-one stock split, effective September 29, 1997). On September 26, 1997, Monterey common stock closed at $20.88 and Texaco common stock closed at $59.75.

Listing of Texaco Common Stock

Texaco will list the shares of its common stock to be issued in the merger on the New York Stock Exchange.

Forward-Looking Statements (See page 18)

This document (and documents that are incorporated herein by reference)

includes various forward-looking statements about Monterey, Texaco and the combined company that are subject to risks and uncertainties. Forward-looking statements include information concerning future results of operations of Monterey, Texaco and the combined company. Also, statements including the words "expects," "anticipates," "intends," "plans," "believes," "estimates" or similar expressions are forward-looking statements. Stockholders should note that many factors, some of which are discussed elsewhere in this document and in the documents that are incorporated by reference, could affect the future financial results of Monterey, Texaco and the combined company and could cause actual results to differ materially from those expressed in forward-looking statements contained or incorporated by reference in this document. These factors are described on page 18.

SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth, for the periods indicated, selected financial data for Monterey. The selected balance sheet data as of December 31, 1996 and 1995 and the selected statement of operations data for each of the three years in the period ended December 31, 1996 is derived from the financial statements of Monterey. The selected balance sheet data as of December 31, 1994 and the selected statement of operations data for the year ended December 31, 1993 is derived from the financial statements of the Western Division of Santa Fe. The selected balance sheet data as of December 31, 1993 and 1992 and the selected statement of operations data for the year ended December 31, 1992 is derived from the unaudited accounting records of the Western Division of Santa Fe. The selected balance sheet data as of June 30, 1997 and 1996 and the selected statement of operations data for the six-month periods then ended is derived from the unaudited financial statements of Monterey and include, in the opinion of Monterey's management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial data for such periods. This selected financial data should be read in conjunction with Monterey's financial statements and the notes thereto appearing elsewhere herein. This information should not be considered indicative of future operating results of Monterey. See also "Monterey Management's Discussion and Analysis of Financial Condition and Results of Operations."

Monterey Selected Historical Financial Data(1)

(In millions, except per share amounts)

	Six Months Ended June 30,		Year Ended December 31,				
	1997	1996	1996	1995	1994	1993	1992
Historical Statement of Operations Data							
Revenues	$160	$128	$293	$219	$192	$200	$226
Income (loss) before extraordinary items	25	24	55	34	12	(35)	13
Extraordinary items	--	--	(5)	--	--	--	--
Net income (loss)	$25	$24	$50	$34	$12	$(35)	$13
Per Share Data (in dollars):							
Net income	$0.46	$ --	$ --	$ --	$ --	$ --	$ --
Pro forma Income (loss) before extraordinary items	$ --	$0.44	$1.00	$0.63	$0.21	$(0.64)	$0.22
Extraordinary items	--	--	(0.08)	--	--	--	--
Net income (loss)	$ --	$0.44	$0.92	$0.63	$0.2	$(0.64)	$0.22
Average number of Monterey common shares outstanding for computation of earnings per share or pro forma earnings per share (2)	54.8	54.8	54.8	54.8	54.8	54.8	54.8
Dividends declared per common share	$ 0.37	$ --	$ --	$ --	$ --	$ --	$ --
Historical Balance Sheet Data, at period end							
Current assets	$67	$32	$67	$23	$25	$28	$28
Total assets	468	410	447	391	376	387	476
Current liabilities	55	63	49	21	27	28	27
Long-term debt	185	210	175	245	245	258	263
Shareholders' equity and Division equity	182	51	177	45	32	35	94

(1) Reflects the operations of the Western Division of Santa Fe for the years 1992 through 1995 and the six months ended June 30, 1996. The year 1996 reflects the operations of the Western Division of Santa Fe for January through October and Monterey for November and December. The six months ended June 30, 1997 reflects the operations of Monterey.

(2) Common shares outstanding at November 19, 1996, the closing date of Monterey's initial public offering, have been included on a pro forma basis in the calculation of net income per share for the years ended December 31, 1992 through 1996 and the six months ended June 30, 1996

as if such shares were outstanding during such periods.

Texaco Selected Historical Consolidated Financial Data(1)

(In millions, except per share amounts)

	(Unaudited) Six Months Ended June 30,		Year Ended December 31,				
	1997	1996	1996	1995	1994	1993	1992
Historical Consolidated Statement of Income Data							
Revenues from continuing operations	$23,525	$21,532	$45,500	$36,787	$33,353	$34,071	$36,530
Net income (loss) before cumulative effect of accounting changes:							
Continuing operations	$1,551	$1,075	$2,018	$728	$979	$1,259	$1,038
Discontinued operations	--	--	--	--	(69)	(191)	(26)
Cumulative effect of accounting changes	--	--	--	(121)	--	--	(300)
Net income	$1,551	$1,075	$2,018	$607	$910	$1,068	$712
Per common share (dollars)							
Net income (loss) before cumulative effect of accounting changes:							
Continuing operations	$2.93	$2.01	$3.76	$1.28	$1.72	$2.23	$1.81
Discontinued operations	--	--	--	--	(0.14)	(0.36)	(0.05)
Cumulative effect of accounting changes	--	--	--	(0.23)	--	--	(0.58)
Net income	$2.93	$2.01	$3.76	$1.05	$1.58	$1.87	$1.18
Dividends paid per common share	$0.85	$0.80	$1.65	$1.60	$1.60	$1.60	$1.60
Average number of Texaco common shares outstanding for computation of earnings per share	520.2	521.4	521.4	520.0	517.6	517.8	517.3
Historical Consolidated Balance Sheet Data, as of							
Current assets	$7,055	$6,521	$7,665	$6,458	$6,019	$6,865	$5,611
Total assets	27,041	25,241	26,963	24,937	25,505	26,626	25,992
Current liabilities	5,431	5,206	6,184	5,206	5,015	4,756	4,225
Long-term debt and capital lease obligations	5,067	5,159	5,125	5,503	5,564	6,157	6,441
Stockholders' equity	11,415	10,026	10,372	9,519	9,749	10,279	9,973

(1) All per share amounts reflect the two-for-one stock split of Texaco common stock effective September 29, 1997.

COMPARATIVE PER SHARE DATA

(Unaudited)

The following table summarizes the per share information for Monterey and Texaco on a historical, pro forma combined and equivalent basis. All per share amounts, except historical Monterey amounts, reflect the two-for-one stock split of Texaco common stock effective September 29, 1997. The pro forma information gives effect to the merger accounted for by Texaco as a purchase business combination. You should read this information together with Monterey's financial statements and the notes thereto appearing elsewhere herein, Texaco's financial statements and the notes thereto included in its annual reports on Form 10-K and other information that Monterey and Texaco have filed with the Securities and Exchange Commission. See "Where You Can Find More Information" on page 66. You should not rely on the pro forma combined information as being indicative of the results that would have been achieved had the companies been combined or the future results that the combined company will experience after the merger.

	Six Months Ended June 30, 1997	Year Ended December 31, 1996
Historical Per Common Share -- Monterey		
Income from continuing operations (before extraordinary items)	$0.46	$1.00
Book value(1)	3.32	3.22
Dividends declared(2)	0.37	--
Equivalent Pro Forma Combined Per Monterey Common Share(3)(4)		
Income from continuing operations (before extraordinary items)	$1.10	$1.42
Book value	8.96	8.22

Dividends declared	0.33	0.64
Historical Per Common Share -- Texaco		
Income from continuing operations	$2.93	$3.76
Book value(1)	21.96	19.97
Dividends declared	0.85	1.65
Pro Forma Combined Per Texaco Common Share(3)		
Income from continuing operations (before extraordinary items)(5)	$2.84	$3.67
Book value(6)	23.23	21.32
Dividends declared	0.85	1.65

(1) Based on common shares outstanding at the end of each period.

(2) Excludes dividends paid to Monterey's parent company prior to Monterey's initial public offering in November 1996.

(3) Pro forma amounts include the effects of the cash purchase by Monterey of 100% of the common stock of McFarland Energy, Inc. in July, 1997 for $106.2 million.

(4) Based on an assumed exchange ratio of 0.3857 Texaco common shares for each Monterey common share, the midpoint of the possible range.

(5) Based on weighted average pro forma common shares and pro forma net income available for common stock.

(6) Based on pro forma common shares outstanding at the end of each period.

RISK FACTORS

In addition to the other information included in this Proxy Statement/Prospectus (including the matters addressed in "The Merger--Forward-Looking Statements May Prove Inaccurate" on page 18), the following risk factors should be considered carefully by Monterey stockholders in determining whether to vote to approve the merger and the related merger agreement.

Integration of Operations

The merger involves the integration of two companies that have previously operated independently. No assurance can be given that Texaco will be able to integrate the operations of Monterey without encountering difficulties or experiencing the loss of key Monterey employees, customers or suppliers, or that the benefits expected from such integration will be realized.

Stock Ownership in Texaco

Upon completion of the merger, Monterey stockholders will become stockholders of Texaco. Texaco's business is different from that of Monterey, and Texaco's results of operations, as well as the price of Texaco common stock, will be affected by many factors different than those affecting Monterey's results of operations and the price of Monterey common stock. See "The Merger--Forward-Looking Statements May Prove Inaccurate" on page 18 for a summary of many of the key factors that might affect Texaco and the price at which the Texaco common stock may trade from time to time. See also "Comparative Per Share Market Price and Dividend Information" on page 21 for a chart depicting the prices at which Monterey common stock and Texaco common stock have traded in recent periods and the dividend paid by Monterey and Texaco during such periods.

THE MERGER

The discussion in this Proxy Statement/Prospectus of the Merger and the principal terms of the Merger Agreement is subject to, and qualified in its entirety by reference to, the Merger Agreement, a copy of which is attached to this Proxy Statement/Prospectus as Annex A, and is incorporated herein by reference. Except where otherwise noted, all references to Texaco common stock, including the market price, number of shares, par value, historical earnings per share and related information contained in this Proxy Statement/Prospectus have been adjusted to reflect the two-for-one stock split, effective September 29, 1997.

General

Monterey Resources, Inc., a Delaware corporation ("Monterey"), and Texaco Inc., a Delaware corporation ("Texaco"), are furnishing this Proxy Statement/Prospectus to holders of common stock, par value $0.01 per share of Monterey ("Monterey Common Stock"), in connection with the solicitation of proxies by the Monterey Board of Directors (the "Monterey Board") in connection with a special meeting of holders of Monterey Common Stock (the "Special Meeting") to be held on November 4, 1997, and at any adjournments or postponements thereof.

At the Special Meeting, holders of Monterey Common Stock will be asked to vote upon a proposal to approve and adopt an Agreement and Plan of Merger dated as of August 17, 1997 (the "Merger Agreement") between Texaco and Monterey.

The Merger Agreement provides, on the terms and subject to the conditions set forth therein, (i) for the merger of a newly formed wholly owned subsidiary of Texaco ("Merger Subsidiary") with and into Monterey (the

"Merger"), with Monterey surviving the Merger as a wholly owned subsidiary of Texaco, and (ii) that each share of Monterey Common Stock outstanding immediately prior to the Effective Time, as defined herein (other than shares owned by Monterey as treasury stock or by Texaco or any subsidiary of Texaco), will be converted into the right to receive that number of shares (the "Stock Consideration") of common stock, par value $3.125 per share, of Texaco ("Texaco Common Stock") derived by dividing $21 by the average closing price of Texaco Common Stock on the New York Stock Exchange ("NYSE") for the thirty consecutive trading day period ending on and including the fifth trading day prior to the Effective Time ("Average Closing Price"); provided, that if the Average Closing Price is greater than $60.50, the number of shares of Texaco Common Stock to be issued per share of Monterey Common Stock will be 0.3471, and if the Average Closing Price is less than $49.50, the number of shares of Texaco Common Stock to be issued per share of Monterey Common Stock will be 0.4242. The Merger will become effective (the "Effective Time") at the time of filing of a certificate of merger with the Secretary of State of the State of Delaware (or at such later time as is specified in the certificate of merger), which is expected to occur as soon as practicable after the last of the conditions precedent to the Merger set forth in the Merger Agreement has been satisfied or waived.

Background of the Merger

On July 28, 1997 Peter Bijur, Chairman and Chief Executive Officer of Texaco, contacted R. Graham Whaling, Chairman and Chief Executive Officer of Monterey, regarding Texaco's interest in engaging in a stock-for-stock business combination with Monterey at an exchange ratio representing a significant premium to Monterey's prevailing stock price. Mr. Bijur advised Mr. Whaling of Texaco's belief that both Texaco's stockholders and Monterey's stockholders would benefit from such a combination.

On July 30, 1997 Claire S. Farley, President of Texaco North America Producing, met with Mr. Whaling to reiterate Texaco's interest in pursuing a business combination with Monterey. Ms. Farley advised Mr. Whaling that Texaco was contemplating a business combination in which Monterey would be combined with Texaco and each outstanding share of Monterey Common Stock would be exchanged for Texaco Common Stock, at an exchange ratio that would value Monterey Common Stock at $20.00 per share. Ms. Farley advised Mr. Whaling that, if Monterey were to advise Texaco that Monterey was interested in pursuing such a combination, Texaco would require only two or three days of high-level, confirmatory due diligence before such a proposal could be finalized. Ms. Farley further advised Mr. Whaling that Texaco intended to retain all non-executive employees of Monterey as well as David B. Kilpatrick, President and Chief Operating Officer of Monterey, who would be assigned a responsible position in the combined organization. Ms. Farley advised Mr. Whaling that tax counsel to Texaco was of the view that, based on all of the information then available to Texaco, such a stock-for-stock business combination would not affect the tax-free status of the distribution by Santa Fe Energy Resources, Inc. ("Santa Fe") on July 25, 1997 of Monterey Common Stock to Santa Fe's common stockholders (the "Spin Off"). Mr. Whaling advised Ms. Farley that, although Monterey was not for sale, Mr. Whaling would discuss Texaco's proposal with the Monterey Board and would advise Ms. Farley as to whether Monterey was interested in further pursuing the proposed business combination.

On July 31, 1997 the Monterey Board held a telephonic meeting to discuss Texaco's proposal. During that meeting, Mr. Whaling advised the Monterey Board of his conversations with Mr. Bijur and Ms. Farley and the terms of Texaco's proposal for a business combination between Texaco and Monterey. Following a thorough discussion of the matter, the Monterey Board concluded that (i) although Monterey was not for sale, Mr. Whaling should continue his discussions with Ms. Farley regarding a possible stock-for-stock business combination of Texaco and Monterey and (ii) Monterey should retain an investment banking firm to assist it in discussions with Texaco.

Following such meeting of the Monterey Board, on July 31, 1997 Mr. Whaling contacted Ms. Farley to advise her that although Monterey was not for sale, he was authorized to continue discussions with her regarding a possible business combination and that the Monterey Board was interested in further evaluating the possibility of a strategic combination with Texaco and intended to engage an investment banking firm to assist it with such analysis.

On August 5, 1997, a telephonic meeting of the Monterey Board was held to discuss the potential business combination with Texaco. During that meeting, the Monterey Board approved the engagement letter pursuant to which Goldman, Sachs & Co. ("Goldman Sachs") was engaged as Monterey's financial advisor and approved the engagement of Andrews & Kurth L.L.P. ("Andrews & Kurth") as counsel for Monterey in connection with the proposed business combination with Texaco. The Monterey Board was then advised by representatives of Andrews & Kurth of its fiduciary obligations under Delaware law in the context of the proposed business combination, and Goldman Sachs discussed with the Monterey Board the financial condition, business and prospects of Monterey and Texaco, individually, as compared to each other and as compared with a peer group. Based upon the presentations made and discussions conducted during that meeting, the Monterey Board directed Mr. Whaling to engage Ms. Farley in discussions relating to the value of Monterey. The Monterey Board also directed Monterey's legal and financial advisors to analyze the benefits that a combination with Texaco could provide.

After the Monterey Board meeting, on August 5, 1997, Mr. Whaling contacted Ms. Farley and advised her that (i) the Monterey Board was unwilling to continue business combination discussions with Texaco on an exclusive basis unless the proposed $20 per share exchange value was increased and (ii) if such an increase were made, the Monterey Board would be prepared to proceed quickly in its due diligence confirmation efforts. Ms. Farley then arranged for Monterey to meet with Texaco to determine if Texaco overlooked any factors in its evaluation of Monterey that would justify an increase by Texaco in the proposed exchange rate per share.

On August 8, 1997, Messrs. Whaling and Kilpatrick and representatives of Goldman Sachs met with Ms. Farley and other representatives of Texaco, including their financial advisors, Credit Suisse First Boston. During that meeting, Monterey presented information relating to certain aspects of its business and operations. At the conclusion of these discussions, Texaco advised Messrs. Whaling and Kilpatrick that they had considered and evaluated in their proposal all matters presented by Monterey during such meeting and that the proposed exchange value remained at $20 per share. The meeting was then adjourned.

During the evening of August 8, 1997, Ms. Farley contacted Mr. Whaling and suggested a meeting on August 9, 1997 to revisit the issue of the appropriate exchange ratio.

On August 9, 1997, Ms. Farley met with Mr. Whaling and advised him that (i) Texaco was willing to increase the proposed exchange ratio per share of Monterey Common Stock to $21.00, (ii) such increased exchange value was the highest value that Texaco would offer for such a business combination and (iii) Texaco's business combination proposal would be withdrawn if Monterey held discussions with any third party regarding a proposed business combination with Monterey. Mr. Whaling advised Ms. Farley that he would discuss Texaco's revised proposal with the Monterey Board and would advise her if the Monterey Board determined to proceed with negotiations.

During the afternoon of August 9, 1997, the Monterey Board held a telephonic meeting during which Mr. Whaling reviewed his conversations with Ms. Farley and Texaco's most recent proposal with respect to a possible business combination. Following a thorough discussion of the revised proposal among the members of the Monterey Board, which included discussions with Goldman Sachs and Andrews & Kurth, the Monterey Board authorized Mr. Whaling to commence negotiations with Texaco to determine if Texaco and Monterey could negotiate a definitive agreement on mutually acceptable terms providing for a business combination with Texaco pursuant to which Monterey Common Stock would be converted into Texaco Common Stock at an exchange value of $21.00 per share. After the meeting, Mr. Whaling contacted Ms. Farley to advise her of the determination by the Monterey Board to commence negotiations to determine if a mutually acceptable definitive agreement could be negotiated.

On August 12, 1997, Texaco and Monterey entered into a confidentiality agreement, pursuant to which each party agreed to keep confidential any non-public information that might be exchanged between them. During the afternoon of August 12, 1997 and continuing on August 13, 1997 Monterey provided Texaco and certain of its advisors with certain information regarding Monterey's business, properties, operations and prospects. During the afternoon of August 12, 1997 Texaco provided to Monterey and its advisors Texaco's initial draft of a definitive merger agreement for the proposed business combination. From time to time on each of August 12, 13, 14, 15, 16 and 17 negotiations regarding the definitive agreements were conducted between Texaco management and Monterey management and their respective financial and legal advisors. On August 14, 1997 and again on August 16, 1997, Texaco held discussions with Monterey and certain of its advisors regarding Texaco's business, properties, operations and prospects.

On August 15, 1997, the Monterey Board held a telephonic meeting during which it discussed the current status of negotiations on the definitive merger agreement. Andrews & Kurth discussed with the Monterey Board the terms of the proposed merger agreement, including the principal issues that remained to be negotiated thereunder. Monterey management, together with its advisors, discussed with the Monterey Board their conclusions to date regarding due diligence conducted on Texaco. Following a thorough discussion, the Monterey Board directed Monterey management and the Monterey financial and legal advisors to continue negotiations with, and their due diligence of, Texaco.

On August 17, 1997, the Monterey Board held a telephonic meeting. During that meeting, Andrews & Kurth discussed the terms of the revised form of merger agreement, including material changes to the terms thereof made since the prior meeting, the fiduciary obligations of the Monterey Board in the context of the proposed business combination, the form of amendment to be made to Monterey's rights plan if the business combination with Texaco was approved and certain due diligence findings made since the prior meeting. Goldman Sachs then made a presentation to advise the Monterey Board that, as of August 17, 1997, it was Goldman Sachs' opinion that the Stock Consideration to be received by the holders of Monterey Common Stock pursuant to the Merger Agreement was fair to the Monterey stockholders. For a discussion of Goldman Sachs' opinion, see "--Opinion of Monterey's Financial Advisor." A presentation was also given by management to the Monterey Board of changes proposed to be made to certain compensation arrangements and employee benefit plans if the Monterey Board approved the business combination with Texaco. The Monterey Board also considered Monterey's obligation, under a tax indemnity agreement between it and Santa Fe, not to consummate the Merger unless it received an opinion of Andrews & Kurth (or another law firm of similar repute) that consummation of the Merger would not affect the tax-free status of the Spin Off. In this connection, the Monterey Board considered the view of Andrews & Kurth that, based on all of the information then available to it and subject to receiving representations from officers, directors and employees of Texaco, Santa Fe and Monterey, as well as from certain other persons, it would be able to deliver the opinion just described. The Monterey Board then reviewed its reasons for the business combination and, based upon the information presented, the Monterey Board unanimously approved the Merger, the Merger Agreement and the consummation of the transactions related thereto as fair to and in the best interests of the Monterey stockholders and agreed to recommend to the Monterey stockholders that they vote "for" approval and adoption of such matters. Following such meeting of the Monterey Board, representatives of Texaco and Monterey executed the Merger Agreement.

On August 18, 1997 Texaco and Monterey issued a press release jointly announcing the transaction.

Monterey's Reasons for the Merger; Recommendation of the Monterey Board

The Monterey Board has (a) determined unanimously that the Merger, the Merger Agreement and the transactions contemplated thereby are advisable and fair to and in the best interests of Monterey and its stockholders, (b) directed that the proposed transaction be submitted for consideration by Monterey stockholders and (c) recommended that Monterey stockholders vote for approval and adoption of the Merger, the Merger Agreement and the transactions contemplated thereby. In reaching this conclusion, the Monterey Board, with the assistance of its financial and legal advisors, considered and analyzed a number of factors, including, without limitation, the following:

(i) The Monterey Board analyzed information with respect to the financial condition, results of operations, cash flow, business and prospects of Monterey on both a stand-alone basis and as compared with those available in combination with Texaco, and concluded that Monterey's stockholders would benefit substantially from a business combination with Texaco. Such benefits would consist of the ability of Monterey stockholders to continue to own an interest in the combined company ("Combined Company") and thereby benefit from the enhanced prospects of the Combined Company in terms of enhanced financial and operational resources and flexibility, the combination of complementary skills and experience, as well as the Combined Company's enhanced ability to take advantage of future strategic opportunities.

(ii) The Monterey Board took into account that the Merger should allow the Combined Company to meet the challenges of the increasingly competitive environment in the oil and gas industry more effectively than Monterey could on its own, thereby enabling Monterey to achieve its strategic objectives substantially earlier than it could independently.

(iii) The Monterey Board considered the oral and written presentations of Goldman Sachs and its opinion that, as of August 17, 1997, the Stock Consideration pursuant to the Merger Agreement was fair to the holders of shares of Monterey Common Stock. See "-Opinion of Monterey's Financial Advisor" for a discussion of Goldman Sachs' opinion. A copy of such opinion, which is subject to certain limitations, qualifications and assumptions, is included as Annex B hereto and should be read carefully and in its entirety.

(iv) The Monterey Board considered the terms of the Merger Agreement, the consideration to be received by Monterey stockholders in the Merger and the fact that the receipt of Texaco Common Stock by Monterey's stockholders upon consummation of the Merger will be a tax-free exchange (other than taxes payable on cash received for fractional shares).

In reaching the determination that the Merger, the Merger Agreement and the transactions contemplated thereby are advisable and fair to and in the best interests of Monterey and its stockholders, the Monterey Board also considered a number of additional factors, including its discussions with Monterey's management concerning the results of Monterey's investigation of Texaco, the strategic, operational and financial opportunities available to Monterey, the historical and current market prices of Monterey Common Stock and Texaco Common Stock and the proposed structure of the transaction and the other terms of the Merger Agreement and related agreements.

The Monterey Board also considered certain risks and potential disadvantages associated with the Merger, including the risk that anticipated positive synergies will not be realized to the degree anticipated, the risk that the business combination might not be completed as a result of a failure to satisfy the conditions to the Merger Agreement and other matters described under "Risk Factors" and "--Forward-Looking Statements May Prove Inaccurate." In the judgment of the Monterey Board, the potential benefits of the Merger outweigh these considerations.

The foregoing discussion of the information and factors that were given weight by the Monterey Board is not intended to be exhaustive, but is believed to include all material factors considered by the Monterey Board. In view of the variety of factors considered in connection with its evaluation of the proposed Merger and the terms of the Merger Agreement, the Monterey Board did not deem it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its conclusion, and individual directors may have given different weights to different factors. After considering all such factors, at a telephonic meeting held on August 17, 1997, the Monterey Board unanimously approved the Merger, the Merger Agreement and the transactions contemplated thereby as fair to, and in the best interests of, Monterey and its stockholders.

THE MONTEREY BOARD UNANIMOUSLY RECOMMENDS TO ITS STOCKHOLDERS THAT THEY VOTE "FOR" APPROVAL AND ADOPTION OF THE MERGER AND THE MERGER AGREEMENT.

In considering the recommendation of the Monterey Board with respect to the Merger, the Merger Agreement and the transactions contemplated thereby, Monterey stockholders should be aware that certain officers and directors of Monterey have certain interests in the proposed Merger that are different from and in addition to the interests of Monterey stockholders generally. The Monterey Board was aware of these interests and considered them in approving the Merger and Merger Agreement. See "Interests of Certain Persons in the Merger and Related Matters."

Texaco's Reasons for the Merger

Texaco believes that the Merger will create a company poised to be the leader in heavy oil production in California. The Merger demonstrates Texaco management's commitment to technology leadership in enhanced oil recovery and its application to this region. Monterey, with its large existing and potential reserve base in the Midway Sunset field, has already begun to apply horizontal drilling and advanced steam flood techniques to the field. Texaco intends to further its capital investment program in this field in which it is presently operating and capitalize on its worldwide experience in heavy oil production to create synergies and maximize the production, reserves and value available from all properties of the Combined Company. With Monterey's current production of over 54,000 barrels per day in California (as of September 1, 1997), a large existing reserve base with immense resource target potential, and approximately 350 capable and focused employees, the Merger will offer significant benefits to both employees and shareholders of the two companies.

Opinion of Monterey's Financial Advisor

On August 17, 1997, Goldman Sachs delivered its written opinion to the Monterey Board that, as of such date, the Stock Consideration pursuant to the Merger Agreement was fair to the holders of shares of Monterey Common Stock.

The full text of the written opinion of Goldman Sachs dated August 17, 1997, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is attached hereto as Annex B and is incorporated herein by reference. Monterey stockholders are urged to, and should, read such opinion in its entirety.

In connection with its opinion, Goldman Sachs reviewed, among other things, (i) the Merger Agreement; (ii) Annual Reports to Stockholders and Annual Reports on Form 10-K of Monterey for the year ended December 31, 1996 and of Texaco for the five years ended December 31, 1996; (iii) certain interim reports to stockholders and Quarterly Reports on Form 10-Q of Monterey and Texaco; (iv) Amendment No. 3 to the Registration Statement on Form S-1 and the prospectus contained therein, each dated November 13, 1996, relating to the initial public offering of the shares of Monterey Common Stock; (v) certain other communications from Monterey and Texaco to their respective stockholders; and (vi) certain internal financial analyses and forecasts for Monterey prepared by its management. Goldman Sachs also held discussions with members of the senior management of Monterey and Texaco regarding the past and current business operations, financial condition and future prospects of their respective companies. Goldman Sachs reviewed certain information provided by Monterey relating to Monterey's oil and gas reserves, including reserve reports for the year ended December 31, 1996 prepared by independent petroleum engineers for Monterey, and discussed the reserve information with the senior management of Monterey. In addition, Goldman Sachs reviewed the reported price and trading activity for the shares of Monterey Common Stock and the shares of Texaco Common Stock, compared certain financial and stock market information for Monterey and Texaco with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the oil and gas industry specifically and other industries generally and performed such other studies and analyses as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial and other information reviewed by it and assumed such accuracy and completeness for purposes of rendering its opinion. In addition, Goldman Sachs has not made an independent evaluation or appraisal of the assets and liabilities of Monterey or Texaco or any of their respective subsidiaries and, except for the reserve information referred to in the preceding paragraph, Goldman Sachs has not been furnished with any such evaluation or appraisal. With respect to such reserve information, Goldman Sachs indicated that it is not an expert in the evaluation of oil and gas properties and, with the consent of the Monterey Board, relied without independent verification solely upon the reserve reports and internal estimates prepared by the independent petroleum engineers and senior management of Monterey. Goldman Sachs' opinion is based upon the economic and market conditions existing on the date of its opinion. Goldman Sachs was not requested to solicit and did not solicit interest from other parties in a potential business combination with Monterey. The opinion of Goldman Sachs referred to herein was provided for the information and assistance of the Monterey Board in connection with its consideration of the Merger and does not constitute a recommendation as to how any holder of shares of Monterey Common Stock should vote with respect to the Merger.

The following is a summary of certain of the financial analyses used by Goldman Sachs in connection with providing its written opinion to the Monterey Board on August 17, 1997. Such analyses which utilized prices of the Texaco Common Stock were not adjusted for the Texaco Common Stock split effective September 29, 1997.

Historical Exchange Ratio Analysis. Goldman Sachs reviewed the historical trading prices for the Monterey Common Stock and the Texaco Common Stock. In addition, Goldman Sachs compared the historical stock prices of the Monterey Common Stock and the Texaco Common Stock on the basis of the respective closing prices per share on August 15, 1997, the weighted average stock prices for the prior 10, 20, 30, 60, 90 and 180 days, and the weighted average stock prices since Monterey's initial public offering on November 14, 1996. This analysis indicated that the implied exchange ratios ranged from 0.126 to 0.146 as compared to an exchange ratio of 0.191, based on a transaction value of $21.00 per share of Monterey Common Stock, and without adjusting for the Texaco Common Stock split effective September 29, 1997.

Monterey Selected Companies Analysis. Goldman Sachs reviewed and compared certain financial information relating to Monterey to

corresponding financial information, ratios and public market multiples for four publicly traded corporations: Berry Petroleum Company, ELAN Energy Inc., Nuevo Energy Company and Vintage Petroleum, Inc. (the "Monterey Selected Companies"). The Monterey Selected Companies were chosen because they are publicly-traded companies with operations that for purposes of analysis may be considered similar to Monterey. Goldman Sachs calculated and compared various financial multiples and ratios. The multiples of Monterey were calculated using a price of $21.00 per share of Monterey Common Stock. The multiples and ratios for Monterey were based on information provided by Monterey's management and the multiples for each of the Monterey Selected Companies were based on the most recent publicly available information and estimates provided by Institutional Brokers Estimate Service ("IBES"). With respect to the Monterey Selected Companies, Goldman Sachs considered estimated calendar year 1997 and 1998 price/earnings ("P/E") multiples that ranged from 14.8x to 24.2x with a mean of 19.0x for estimated calendar year 1997 and 14.3x to 22.0x with a mean of 17.1x for estimated calendar year 1998 compared to 20.2x and 14.9x, respectively, for Monterey; estimated calendar year 1997 and 1998 price/discretionary cash flow multiples that ranged from 5.5x to 10.3x with a mean of 6.8x for estimated calendar year 1997 and 5.0x to 10.2x with a mean of 6.3x for estimated calendar year 1998, compared to 9.3x and 7.6x, respectively, for Monterey; enterprise value as a percentage of SEC 10 ("Pre-Tax PV10") that ranged from 61% to 78% with a mean of 69% compared to 123% for Monterey; and reserves/production ratios (derived by dividing 1996 reserves by 1996 production) that ranged from 11.1 to 28.6 with a mean of 16.7 compared to 13.6 for Monterey.

Texaco Selected Companies Analysis. Goldman Sachs reviewed and compared certain financial information relating to Texaco to corresponding financial information, ratios and public market multiples for six publicly traded corporations: Amoco Corp., Atlantic Richfield Company, British Petroleum Plc, Chevron Corp., Mobil Corporation and Phillips Petroleum Company (the "Texaco Selected Companies"). The Texaco Selected Companies were chosen because they are publicly-traded companies with operations that for purposes of analysis may be considered similar to those of Texaco. Goldman Sachs calculated and compared various financial multiples and ratios. The multiples of Texaco were calculated using a price of $110.00 per share of Texaco Common Stock, the per share price of the Texaco Common Stock on the NYSE on August 15, 1997, without adjustment for the Texaco Common Stock split effective September 29, 1997. The multiples and ratios for Texaco were based on information provided by IBES and the multiples for each of the Texaco Selected Companies were based on the most recent publicly available information and estimates provided by IBES. With respect to the Texaco Selected Companies, Goldman Sachs considered estimated calendar year 1997 and 1998 P/E multiples that ranged from 13.8x to 18.2x with a mean of 16.7x for estimated calendar year 1997 and 13.8x to 17.5x with a mean of 16.2x for estimated calendar year 1998 compared to 17.1x and 16.4x, respectively, for Texaco; estimated calendar year 1997 and 1998 price/discretionary cash flow multiples, that ranged from 6.6x to 9.5x with a mean of 8.4x for estimated calendar year 1996 and 6.2x to 9.3x with a mean of 8.2x for estimated calendar year 1998, compared to 8.5x and 7.8x, respectively, for Texaco; and reserves/production ratios (derived by dividing 1996 reserves by 1996 production) that ranged from 11.2 to 13.0 with a mean of 11.8 compared to 9.0 for Texaco.

Discounted Cash Flow Analysis. Goldman Sachs performed a discounted cash flow analysis using Monterey's management projections. Goldman Sachs calculated a net present value of free cash flows for the years 1997 through 2001 using discount rates ranging from 8.0% to 12.0%. Goldman Sachs calculated Monterey's terminal values in the year 2001 based on multiples ranging from 5.0x discretionary cash flow to 8.0x discretionary cash flow. These terminal values were then discounted to present value using discount rates from 8.0% to 12.0%. Based on this analysis the implied per share of Monterey Common Stock values ranged from $13.60 to $24.18.

Selected Transactions Analysis. Goldman Sachs analyzed certain information relating to eight selected transactions in the exploration and production industry since 1996 (the "Selected Transactions"). Such analysis indicated that for the Selected Transactions (i) the transaction value to estimated calendar year 1997 and 1998 earnings per share ("EPS") multiples that ranged from 14.3x to 70.6x with a mean of 33.6x for estimated calendar year 1997 and 13.0x to 65.5x with a mean of 29.9x for estimated calendar year 1998 compared to 20.2x and 14.9x, respectively, for the Merger (based on a transaction price of $21.00 per share of Monterey Common Stock); (ii) the estimated calendar year 1997 and 1998 transaction value/discretionary cash flows multiples that ranged from 5.5x to 8.2x with a mean of 6.6x for estimated calendar year 1997 and 4.1x to 8.0x with a mean of 5.9x for estimated calendar year 1998 compared to 9.3x and 7.6x, respectively, for the Merger (based on a transaction price of $21.00 per share of Monterey Common Stock); (iii) premiums to undistributed stock prices that ranged from 21% to 42% with a mean of 33% compared to 39% for the Merger (based on a transaction price of $21.00 per share of Monterey Common Stock); and (iv) transaction value per barrel of oil equivalent proved reserves ("BOE") ranged from $4.47 to $8.51 with a mean of $5.95, compared to $6.06 per BOE for the Merger.

Goldman Sachs also analyzed certain information relating to seven selected transactions involving companies with oil producing fields in California (the "California Selected Transactions"). Such analysis indicated that for the California Selected Transactions the transaction value per BOE ranged from $3.35 to $6.80 with a mean of $4.97, compared to $6.06 per BOE for the Merger.

Pro Forma Merger Analysis. Goldman Sachs prepared pro forma analyses of the financial impact of the Merger. Using earnings estimates for Monterey prepared by its management and for Texaco provided by IBES for the years 1997 and 1998, Goldman Sachs compared the EPS of each of the Monterey Common Stock and the Texaco Common Stock, on a stand alone basis, to the EPS of the common stock of the combined companies on a pro forma basis. Goldman Sachs performed this analysis based on a price equal to a transaction value of

$21.00 per share of Monterey Common Stock and a price of $110.00 per share of Texaco Common Stock (the per share price of the Texaco Common Stock on August 15, 1997, without adjustment for the Texaco Common Stock split effective September 29, 1997). Based on such analyses, the Merger would be moderately accretive to Monterey's stockholders on an EPS basis in 1997 and moderately dilutive in 1998. Goldman Sachs also compared the discretionary cash flow of Monterey and Texaco, on a stand alone basis, to the discretionary cash flow of the combined companies on a pro forma basis using discretionary cash flow estimates from Monterey's management for Monterey and from IBES estimates for Texaco. Based on these analyses, the Merger would be slightly dilutive to Monterey's discretionary cash flow in 1997 and slightly accretive in 1998.

Contribution Analysis. Goldman Sachs reviewed certain historical and estimated future operating and financial information (including, among other things, net income, discretionary cash flow, unlevered discretionary cash flow, Pre-Tax PV10, Pre-Tax PV10 less debt and preferred stock, reserves and production) for Monterey, Texaco and the pro forma combined company resulting from the Merger based on Monterey's management's financial forecasts for Monterey and IBES estimates for Texaco. The analysis indicated that the Monterey stockholders would receive 2.8% of the market capitalization of the combined companies after the Merger based on the closing stock prices of the Monterey Common Stock and the Texaco Common Stock on August 15, 1997 and 3.8% based on a transaction value of $21.00 per share of Monterey Common Stock and Monterey's stockholders would receive 3.0% of the combined companies enterprise value after the Merger based on the closing stock prices of the Monterey Common Stock and the Texaco Common Stock on August 15, 1997 and 3.9% based on a transaction value of $21.00 per share of Monterey Common Stock. Goldman Sachs also analyzed the relative contribution of Monterey and Texaco to the combined companies on a pro forma basis with respect to various financial items. This analysis indicated that (i) in 1996 Monterey would have contributed 3.0% to combined net income, 2.8% to combined discretionary cash flow, 3.0% to combined unlevered discretionary cash flow, 3.7% to combined Pre-Tax PV 10, 3.5% to combined Pre-Tax PV 10 less debt and preferred stock, 6.0% to combined reserves and 3.9% to combined production, (ii) in 1997 Monterey would contribute 3.3% to combined net income, 3.6% to combined discretionary cash flow, 3.7% to combined unlevered discretionary cash flow, and 4.2% to combined production and (iii) in 1998 Monterey would contribute 4.2% to combined net income, 4.0% to combined discretionary cash flow, 4.1% to combined unlevered discretionary cash flow, and 4.3% to combined production.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all such analyses. No company or transaction used in the above analyses as a comparison is directly comparable to Monterey or Texaco or the contemplated transaction. The analyses were prepared solely for purposes of Goldman Sachs' providing its opinion to the Monterey Board as to the fairness of the Stock Consideration and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control the parties or their respective advisors, none of Monterey, Texaco, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast. As described above, Goldman Sachs' opinion to the Monterey Board was one of many factors taken into consideration by the Monterey Board in making its determination to approve the Merger Agreement. The foregoing summary does not purport to be a complete description of the analysis performed by Goldman Sachs and is qualified by reference to the written opinion of Goldman Sachs set forth in Annex B hereto.

Goldman Sachs, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. Monterey selected Goldman Sachs as its financial advisor because it is a nationally recognized investment banking firm that has substantial experience in transactions similar to the Merger.

Goldman Sachs is familiar with Monterey having provided certain investment banking services to Monterey from time to time, including having acted as lead underwriter of the initial public offering of shares of Monterey Common Stock in November 1996, and having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the Merger Agreement. Prior to the initial public offering of the shares of Monterey Common Stock and until the tax-free distribution of shares of Monterey Common Stock owned by Santa Fe to its common stockholders on July 25, 1997, Monterey was a wholly owned subsidiary of Santa Fe. Goldman Sachs provided certain investment banking services to Santa Fe from time to time and may provide investment banking services to Santa Fe in the future. Goldman Sachs has provided certain investment banking services to Texaco from time to time and may provide investment banking services to Texaco in the future.

Goldman Sachs provides a full range of financial, advisory and brokerage services and in the course of its normal trading activities may from time to time effect transactions and hold positions in the securities or options on securities of Monterey and/or Texaco for its own account and for the account of customers.

Pursuant to a letter agreement dated August 5, 1997 (the "Engagement Letter"), Monterey engaged Goldman Sachs to act as its financial advisor in connection with the exploration of strategic alternatives,

including a possible strategic combination or similar transaction. Pursuant to the terms of the Engagement Letter, Monterey has agreed to pay Goldman Sachs upon consummation of the Merger a transaction fee equal to approximately $7,900,000. Monterey has agreed to reimburse Goldman Sachs for its reasonable out-of-pocket expenses, including attorney's fees and disbursements plus any sales, use or similar taxes, and to indemnify Goldman Sachs against certain liabilities, including certain liabilities under the federal securities laws.

Forward-Looking Statements May Prove Inaccurate

This document (including documents that have been incorporated herein by reference) includes various forward-looking statements about Monterey, Texaco and the Combined Company that are subject to risks and uncertainties. Forward-looking statements include, but are not limited to, the information concerning future results of operations of Monterey, Texaco and the Combined Company after the Effective Time, set forth under "Questions and Answers About The Merger," "Summary," "--Background of the Merger," "--Monterey's Reasons for the Merger; Recommendation of the Monterey Board," "--Texaco's Reasons for the Merger," "--Opinion of Monterey's Financial Advisor" and those preceded by, followed by or that otherwise include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates", variations of such words and similar expressions. For these statements, Monterey and Texaco claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, in addition to those discussed elsewhere in this documents and the documents incorporated herein by reference, could affect the future financial result of Monterey, Texaco and the Combined Company and could cause actual results to differ from those expressed in forward-looking statements contained or incorporated by reference in this document: estimation of reserves; inaccurate seismic data; mechanical failures; unilateral cancellation of concessions by host governments; decreased demand for motor fuels, natural gas and other products; above-average temperatures; pipeline failures; oil spills; increasing price and product competition; higher or lower costs and expenses; domestic and foreign governmental and public policy changes including environmental regulations; the outcome of pending and future litigation and governmental proceedings, and continued availability of financing. In addition, such results could be affected by general industry and market conditions and growth rates; general domestic and international economic conditions including interest rate and currency exchange rate fluctuations; and other factors.

Accounting Treatment

The Merger will be recorded by Texaco as a purchase business combination for accounting and financial reporting purposes. Under this method of accounting, the assets and liabilities of Monterey will be recorded based on allocating the Texaco purchase cost of the acquisition. The pro forma effect of the Merger on consolidated net income and net income per share of Texaco Common Stock for six months, 1997 and prior years is not material.

Certain U.S. Federal Income Tax Consequences

Tax Opinions Regarding the Merger. In the opinion of Davis Polk & Wardwell, counsel to Texaco, and Andrews & Kurth, counsel to Monterey, the Merger will be a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), provided that the representation letters attached to the Merger Agreement (as Exhibits B and C) are delivered at the closing, the representations contained therein are correct as of the Effective Time, the Merger is consummated in the manner contemplated by the Merger Agreement and this Proxy Statement/Prospectus and there is no change in the Code or applicable authority. If such representation letters are not so delivered, the representations are not correct, the Merger is not so consummated or there is a change in the Code or applicable authority, this opinion cannot be relied upon.

Provided that the Merger constitutes a reorganization within the meaning of Section 368(a) of the Code, for U.S. federal income tax purposes: (i) no gain or loss will be recognized by the stockholders of Monterey upon the receipt of Texaco Common Stock in exchange for Monterey Common Stock in the Merger; (ii) the aggregate adjusted tax basis of the shares of Texaco Common Stock to be received by a stockholder of Monterey in the Merger (including fractional shares to be sold on behalf of the stockholder) will be the same as the aggregated adjusted tax basis of the shares of Monterey Common Stock surrendered in exchange therefor; (iii) the holding period of the shares of Texaco Common Stock received by a stockholder of Monterey in exchange for the Monterey Common Stock will include the holding period of the shares of Monterey Common Stock surrendered in exchange therefor, provided that such shares of Monterey Common Stock are held as capital assets at the Effective Time; and (iv) a stockholder of Monterey who receives cash in lieu of a fractional share of Texaco Common Stock would generally recognize gain or loss equal to the difference, if any, between the amount of cash received and such stockholder's adjusted tax basis in the fractional share interest.

Consummation of the Merger is conditioned upon the receipt of opinions of Andrews & Kurth and Davis Polk & Wardwell, each dated as of the Effective Time, to the effect that the Merger will qualify as a tax-free reorganization under Section 368(a) of the Code. Monterey is permitted to waive the condition calling for the opinion of Andrews & Kurth, and Texaco is permitted to waive the condition calling for the opinion of Davis Polk & Wardwell. If Monterey or Texaco waives the condition to its obligation to consummate the Merger relating to the receipt of the opinions referred to above, Monterey will resolicit proxies from its stockholders with respect to the Merger. In connection with any such resolicitation, Monterey will inform its stockholders of any changes in the tax consequences of the Merger to Monterey and its stockholders.

The foregoing discussion does not address all of the tax consequences that may be relevant to particular taxpayers in light of their personal circumstances or to taxpayers subject to special treatment under the Code (for example, insurance companies, financial institutions, dealers in securities, tax-exempt organizations, foreign corporations, foreign partnerships or other foreign entities and individuals who are not citizens or residents of the United States).

No information is provided herein with respect to the tax consequences, if any, of the Merger under applicable foreign, state, local and other tax laws. The foregoing discussion is based upon the provisions of the Code, applicable Treasury regulations thereunder, Internal Revenue Service rulings and judicial decisions as in effect as of the date of this Proxy Statement/Prospectus. There can be no assurance that future legislative, administrative or judicial changes or interpretations will not affect the accuracy of the statements or conclusions set forth herein. Any such change could apply retroactively and could affect the conclusions reached in such discussion. No rulings have been or will be sought from the Internal Revenue Service concerning the tax consequences of the Merger.

Each stockholder of Monterey is urged to consult such stockholder's own tax advisor as to the specific tax consequences to such stockholder of the Merger under U.S. federal, state, local or any other applicable tax laws.

Tax Opinion Regarding the Effect of the Merger on the Spin-Off of Monterey. Texaco's obligation to consummate the Merger is further conditioned on receipt by Monterey of an opinion from its counsel, Andrews & Kurth, that the Merger and any related transactions will not affect the tax-free status under Section 355 of the Code of the Spin Off.

In rendering the opinion described in the previous paragraph, Andrews & Kurth will rely upon representations contained in certificates from employees, officers and directors of Santa Fe, Monterey and Texaco, as well as certain other persons, delivered for purposes of such opinion.

Regulatory Matters; Certain Legal Matters

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the rules promulgated thereunder by the Federal Trade Commission (the "FTC"), the Merger may not be consummated until notifications have been given and certain information has been furnished to the FTC and the Antitrust Division of the United States Department of Justice (the "Antitrust Division") and specified waiting period requirements have been satisfied. Monterey and Texaco have filed the required notification and report forms under the HSR Act with the FTC and the Antitrust Division, and the applicable waiting period is scheduled to expire prior to the Special Meeting, at midnight on October 18, 1997. However, there can be no assurance that Monterey and Texaco will not receive a "second request", in which case the waiting period will expire fifteen days after substantial compliance with such request. The FTC and the Antitrust Division have the authority to challenge the Merger on antitrust grounds before or after the Merger is completed. Each state in which Monterey or Texaco has operations may also review the Merger under state antitrust laws. Neither Monterey nor Texaco is aware of any other regulatory approvals or filings that are required in connection with the Merger.

On August 28, 1997, a shareholder of Monterey filed a purported class action complaint in the Delaware Court of Chancery, No. 15886-NC, seeking (i) to enjoin the Merger on terms proposed and (ii) damages. Defendants named in the complaint are Monterey and each of its directors. The plaintiff alleges numerous breaches of the duties of care and loyalty owed by the defendants to the purported class in connection with entering into the Merger Agreement with Texaco. The defendants believe the complaint is without merit and intend to vigorously defend the action.

No Appraisal Rights

Section 262 of the Delaware General Corporation Law (the "DGCL") provides appraisal rights (sometimes referred to as "dissenters' rights") to stockholders of Delaware corporations in certain situations. However, Section 262 appraisal rights are not available to stockholders of a corporation, such as Monterey, (a) whose securities are listed on a national securities exchange or are designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. ("NASD") and (b) whose stockholders are not required to accept in exchange for their stock anything other than stock of another corporation listed on a national securities exchange or on an interdealer quotation system by the NASD and cash in lieu of fractional shares. Because the Monterey Common Stock is traded on such an exchange, the NYSE, and because the Monterey stockholders are being offered Texaco Common Stock, which is also traded on the NYSE, and (in some cases) cash in lieu of fractional shares, stockholders of Monterey will not have appraisal rights with respect to the Merger.

Holders of Texaco Common Stock are not entitled to appraisal rights under Delaware law in connection with the Merger.

Federal Securities Laws Consequences; Resale Restrictions

This Proxy Statement/Prospectus does not cover resales of the Texaco Common Stock to be received by the stockholders of Monterey upon consummation of the Merger, and no person is authorized to make any use of this Proxy Statement/Prospectus in connection with any such resale.

All shares of Texaco Common Stock received by Monterey stockholders in the Merger will be freely transferable, except that shares of Texaco Common Stock received by persons who are deemed to be "affiliates" (as

such term is defined under the Securities Act of 1933, as amended (the "1933 Act")) of Monterey may be resold by them only in transactions permitted by the resale provisions of Rule 145 (or Rule 144 in the case of such persons who become affiliates of Texaco) or as otherwise permitted under the 1933 Act. Persons who may be deemed to be affiliates of Monterey or Texaco generally include individuals or entities that control, are controlled by, or are under common control with, such party and may include certain officers and directors of Monterey or Texaco as well as significant stockholders. The Merger Agreement requires Monterey to use its reasonable efforts to cause each of its affiliates to execute a written agreement to the effect that such persons will not offer or sell or otherwise dispose of any of the shares of Texaco Common Stock issued to them in the Merger in violation of the 1933 Act or the rules and regulations promulgated by the Securities and Exchange Commission ("SEC") thereunder.

COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Monterey Common Stock and Texaco Common Stock are listed on the NYSE. The Monterey ticker symbol on the NYSE is "MRC". The Texaco ticker symbol on the NYSE is "TX".

The table below sets forth, for the calendar quarters indicated, the reported high and low closing prices of Texaco Common Stock and Monterey Common Stock as reported on the NYSE Composite Transaction Tape, in each case based on published financial sources, and the dividends declared on such stock.

	Monterey Common Stock			Texaco Common Stock(2)		
	Market Price		Cash Dividends	Market Price		Cash Dividends
	High	Low	Declared	High	Low	Declared
1994						
First Quarter.....	$ --	$ --	$ --	$33.88	$31.50	$0.400
Second Quarter.....	--	--	--	32.81	30.19	0.400
Third Quarter.....	--	--	--	31.94	29.50	0.400
Fourth Quarter.....	--	--	--	32.69	29.81	0.400
1995	--	--	--			
First Quarter.....	--	--	--	33.31	29.94	0.400
Second Quarter.....	--	--	--	34.56	32.50	0.400
Third Quarter.....	--	--	--	33.63	31.88	0.400
Fourth Quarter.....	--	--	--	40.06	32.19	0.400
1996		--	--			
First Quarter.....	--	--	--	44.19	38.13	0.400
Second Quarter.....	--	--	--	44.06	40.00	0.400
Third Quarter.....	--	--	--	47.63	42.00	0.425
Fourth Quarter.....	16.75	15.63 (1)	--	52.94	47.00	0.425
1997						
First Quarter.....	16.75	15.00	0.22	54.88	49.38	0.425
Second Quarter.....	16.50	14.88	0.15	56.94	50.50	0.425
Third Quarter (through September 26, 1997)...	21.25	20.63	0.15	61.00	57.69	0.450

(1) November 14 (first available) through December 31, 1996. Prior to November 14, 1996, Monterey was a wholly owned subsidiary of Santa Fe.

(2) Reflects two-for-one stock split effective September 29, 1997.

On August 15, 1997, the last full trading day prior to the public announcement of the proposed Merger, the closing price on the NYSE Composite Transaction Tape was $15.06 per share of Monterey Common Stock and $55.00 per share of Texaco Common Stock, taking into account the two-for-one stock split. On September 26, 1997, the most recent practicable date prior to the printing of this Proxy Statement/Prospectus, the closing price on the NYSE Composite Transaction Tape was $59.75 per share of Texaco Common Stock and $20.88 per share of Monterey Common Stock.

Stockholders are urged to obtain current market quotations prior to making any decision with respect to the Merger.

The payment of dividends by Texaco in the future will depend on business conditions, Texaco's financial condition and earnings and other factors.

INTERESTS OF CERTAIN PERSONS IN THE MERGER AND RELATED MATTERS

In considering the recommendation of the Monterey Board with respect to the Merger Agreement and the transactions contemplated thereby, stockholders should be aware that certain members of the management of Monterey and the Monterey Board have interests in the Merger that are different from, and in addition to, the interests of stockholders of Monterey.

Employment Agreements

Six of Monterey's executives have employment agreements with Monterey pursuant to which they will be entitled to resign on or following the Merger and receive a lump sum severance payment. The executives with these

agreements are R. Graham Whaling, David B. Kilpatrick, Gerald R. Carman, Terry L. Anderson, C. Ed Hall and J. Jeffery Guise. Three other executives, Jeffrey B. Williams, Lou E. Shuflin and Scott D. Heflin have employment agreements with Monterey for which the Merger will begin a two-year period during which the executive will be entitled to severance benefits if his employment is terminated either by Monterey for any reason other than for "Misconduct" or by the executive for a "Good Reason," each such phrase as defined in the respective employment agreement.

Under each of these employment agreements, on a qualifying termination the executive will be entitled to receive a lump sum payment equal to the sum of (i) two times the executive's annual base salary (R. Graham Whaling will receive three times his annual base salary), (ii) a bonus equal to the executive's bonus received under Monterey's Incentive Compensation Plan for 1997, and (iii) two times (three times for R. Graham Whaling) the amount of Monterey's contributions that it would have made on behalf of the executive to Monterey's Employee Stock Ownership Plan ("ESOP") and 401(k) plan and credited under Monterey's nonqualified supplemental ESOP and 401(k) plans for 1997 (assuming full participation in such plans by the executive for all of 1997). In addition, Monterey will continue to provide the executive with welfare benefits for two years (three years for R. Graham Whaling); provide outplacement services to the executive of up to $15,000; provide home relocation benefits under Monterey's relocation policy if the executive moves from Bakersfield, California; and if the executive's termination occurs prior to 1998, the executive shall be paid and receive benefits as if his employment with Monterey continued through the end of 1997. Further, to the extent that payments to any of these executives, whether under the employment agreement or otherwise, are subject to the "golden parachute" excise tax imposed by Section 4999 of the Code, the executive generally will be entitled to receive an additional cash payment sufficient to make the executive "whole" on a net after-tax basis for these additional payments, including the taxes thereon, and any interest or penalties with respect thereto.

In the event that all executives with employment agreements were to be terminated by Monterey other than for "Misconduct" or were to resign with "Good Reason" on or following the Effective Time, Monterey's aggregate additional liability under the employment agreements based on August 1, 1997 compensation levels is estimated to be approximately $5.9 million.

Consulting Agreements

Monterey has entered into consulting agreements (the "Consulting Agreements") with certain of its executive officers (the "Executive Officers"). Upon the termination of such Executive Officer's employment with Monterey on or following the Merger, the Executive Officer will be available for consulting with Monterey (the cost to Monterey per month for each such Executive Officer's consulting services will vary). Each of the Consulting Agreements terminates on the earliest to occur of (i) December 31, 1998 (or in one case, June 30, 1999), (ii) the first anniversary of termination of employment, (iii) death, (iv) working for a competitor of Monterey or Texaco, and (v) obtaining full time employment with another employer.

Indemnification and Insurance

All Monterey directors have entered into indemnification agreements with Monterey which provide that Monterey will maintain directors' and officers' liability insurance and indemnify directors to the full extent permitted by applicable law. Further, under the terms of the Merger Agreement, for a period of six years after the Effective Time, Texaco is required to cause Monterey to indemnify the current and former officers and directors of Monterey, to the extent provided in Monterey's certificate of incorporation and bylaws in effect at the date of execution of the Merger Agreement. In addition, for a period of six years after the Effective Time, Texaco is obligated to cause Monterey to use Monterey's best efforts to maintain in effect policies of directors' and officers' liability insurance that are no less advantageous to such persons than are policies covering each person in effect on the date of execution of the Merger Agreement.

Other Employment Arrangements

Texaco has indicated to certain senior Monterey executives, D.B. Kilpatrick and J.B. Williams, that they will be employed by Texaco in positions of equivalent responsibility. Except as described above, no employment agreements or consulting agreements have been entered into with these or any other employees of Monterey in connection with the Merger Agreement.

Compensation Plans

The Merger will constitute a "Change in Control" for purposes of Monterey's stock compensation plans, annual bonus plan and severance plan. As a result, at the Effective Time: (i) all stock options held by Monterey employees and directors will become exercisable (and, with respect to options held by Monterey's outside directors, Texaco has agreed to cash out the option's "spread" upon the Merger for any electing director, rather than granting the director a replacement Texaco stock option); (ii) with respect to all shares of restricted stock held by Monterey employees and directors, all restrictions thereon will lapse; and (iii) each participant in Monterey's Incentive Compensation Plan will receive a cash bonus equal to the maximum bonus that would have been payable to the participant "as if" all performance goals for 1997 under the plan had been fully met as of that date. In addition, the Merger will begin a two-year "protected period" for Monterey's full-time employees (other than employees with employment agreements or employees covered by a collective bargaining agreement), during which the employee will receive certain severance benefits if the employee incurs a qualifying termination of employment.

Under Monterey's Deferred Compensation Plan, as amended, an officer may elect to defer, until one or more subsequent years as elected by the officer, all or part of his (i) stock option "spread" upon the Merger, (ii) restricted stock payment, (iii) 1997 annual bonus, and/or (iv) severance payments under his employment agreement. Deferred amounts will be credited with "phantom" interest by Monterey until paid.

THE MERGER AGREEMENT

This section of the Proxy Statement/Prospectus describes certain aspects of the proposed Merger, including certain provisions of the Merger Agreement. The description of the Merger Agreement contained in this Proxy Statement/Prospectus does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, a copy of which is attached hereto as Annex A, and which is incorporated herein by reference. All Monterey stockholders are urged to read carefully the Merger Agreement in its entirety.

Structure; Effective Time

The Merger Agreement contemplates the Merger of Merger Subsidiary with and into Monterey, with Monterey surviving the Merger as a wholly owned subsidiary of Texaco. The Merger will become effective at the time of filing a certificate of merger with the Secretary of State of the State of Delaware (or such later time as is agreed in writing by the parties and specified in the certificate of merger), which is expected to occur as soon as practicable after the last condition precedent to the Merger set forth in the Merger Agreement has been satisfied or waived.

Merger Consideration

The Merger Agreement provides that each share of Monterey Common Stock outstanding immediately prior to the Effective Time (except as described in the following sentence) will, at the Effective Time, be converted into the right to receive the Stock Consideration (see "The Merger--General"). All shares of Monterey Common Stock that are owned by Monterey as treasury stock and any shares of Monterey Common Stock owned by Texaco or any subsidiary of Texaco will, at the Effective Time, be canceled and no payment will be made for such shares.

Employee Stock Options

At the Effective Time, each option to purchase shares of Monterey Common Stock outstanding under any employee stock option or compensation plan or arrangement of Monterey, whether or not vested or exercisable, shall be converted into an option to purchase shares of Texaco Common Stock (a "Substitute Option"). The number of shares of Texaco Common Stock subject to such Substitute Option and the exercise price thereunder shall be computed in compliance with the requirements of Section 424(a) of the Code. Monterey has agreed that it will, prior to the Effective Time, use its reasonable efforts to obtain such consents, if any, and take such other permitted action, if any, as may be necessary to give effect to the transactions contemplated by this paragraph. Except as contemplated by this paragraph, Monterey has agreed that it will not, without the written consent of Texaco, amend any outstanding options to purchase shares of Monterey Common Stock (including accelerating the vesting or lapse of repurchase rights or obligations).

Conversion of Shares

Prior to the Effective Time, Texaco will appoint an exchange agent (the "Exchange Agent") for the purpose of exchanging certificates representing shares of Monterey Common Stock for the Stock Consideration, which Texaco will make available to the Exchange Agent. Promptly after the Effective Time, Texaco or the Exchange Agent will send each holder of Monterey Common Stock a letter of transmittal for use in the exchange and instructions explaining how to surrender certificates to the Exchange Agent. Holders of Monterey Common Stock may elect in the letter of transmittal to receive the Stock Consideration in certificate or book-entry form. Holders of Monterey Common Stock who surrender their certificates to the Exchange Agent, together with a properly completed letter of transmittal, will receive (in either certificate or book-entry form) the Stock Consideration for each surrendered share of Monterey Common Stock. Holders of unexchanged shares of Monterey Common Stock will not be entitled to receive any dividends or other distributions payable by Texaco after the Effective Time until their certificates are surrendered. Upon surrender, however, such holders will receive accumulated dividends and distributions payable on the related shares of Texaco Common Stock subsequent to the Effective Time, without interest, together with (if applicable) cash in lieu of fractional shares of Texaco Common Stock (paid as described in the following paragraph).

Holders of Monterey Common Stock who have elected to receive Texaco Common Stock in book-entry form will have any fractional shares of Texaco Common Stock credited to their account. All other holders will instead receive a check in the amount of the net proceeds from the sale of those fractional shares in the market by the Exchange Agent.

Certain Covenants

Interim Operations of Monterey. From the date of execution of the Merger Agreement until the Effective Time, Monterey and its subsidiaries are required to conduct their business in the ordinary course consistent with past practice and oil field practices standard in the industry and to use their reasonable best efforts to preserve intact their business organizations and relationships with third parties and to keep available the services of their officers and employees. In particular, during this period, Monterey may

not, without Texaco's prior written consent, amend its organizational documents; and neither Monterey nor its subsidiaries may, without Texaco's prior written consent: enter into any merger or consolidation; acquire a material amount of assets of any person; sell or otherwise dispose of "material" assets (except pursuant to existing contracts or commitments, or in the ordinary course consistent with past practice); take any action that would make any representation and warranty of Monterey under the Merger Agreement materially inaccurate in any respect; or agree or commit to any of the foregoing.

Interim Operations of Texaco. From the date of execution of the Merger Agreement until the Effective Time, Texaco and its subsidiaries are required to conduct their business in the ordinary course consistent with past practice and to use their reasonable best efforts to preserve intact their business organizations and relationships with third parties. In particular, during this period, Texaco may not (subject to certain limited exceptions) make any material amendment to its organizational documents, and neither Texaco nor its subsidiaries may (subject to certain limited exceptions) take any action that would make any representation or warranty of Texaco under the Merger Agreement inaccurate in any respect, or agree or commit to any of the foregoing.

Special Meeting; Proxy Material. Monterey has agreed to cause the Special Meeting to be duly called and held as soon as reasonably practicable for the purpose of voting on the approval and adoption of the Merger Agreement. In connection with the Special Meeting, Monterey has agreed to (i) promptly prepare and file with the SEC, use its reasonable best efforts to have cleared by the SEC and thereafter mail to its stockholders as promptly as practicable a proxy statement for the Special Meeting and all other proxy materials for such meeting and (ii) otherwise comply with all legal requirements applicable to such meeting.

No Solicitation by Monterey. Monterey has covenanted in the Merger Agreement that it and its subsidiaries will not, and that it will use its best reasonable efforts to cause the officers, directors and financial and legal advisors of Monterey and its subsidiaries not to, directly or indirectly, take any action to solicit, initiate or encourage any Acquisition Proposal (as defined below) or engage in negotiations with, or disclose any nonpublic information relating to Monterey or any subsidiary of Monterey or afford access to the properties, books or records of Monterey or any subsidiary of Monterey to, any person that may be considering making, or has made, an Acquisition Proposal. Notwithstanding the foregoing, Monterey or the Monterey Board may engage in negotiations with, disclose nonpublic information to, or afford access to properties, books or records to, any person to the extent required to comply with the fiduciary duties of the Monterey Board as advised in writing by Andrews & Kurth, and the Monterey Board may take, and disclose to Monterey stockholders, a position contemplated by Rules 14d-9 and 14e-2 promulgated under the Securities Exchange Act of 1934 ("1934 Act") with regard to any tender offer (provided that the Monterey Board shall not recommend that Monterey stockholders tender their shares in connection with any such tender offer other than to the extent required to comply with the fiduciary duties of the Monterey Board as advised in writing by Andrews & Kurth). "Acquisition Proposal" means any good faith offer or proposal for a merger, consolidation or other business combination involving Monterey or any subsidiary of Monterey or the acquisition of 20% or more of the outstanding shares of Monterey Common Stock, or a substantial portion of the assets of Monterey or any subsidiary of Monterey, taken as a whole, other than the transactions contemplated by the Merger Agreement.

Monterey must notify Texaco promptly (and in no event later than 24 hours) after receipt of (i) any Acquisition Proposal, (ii) any indication that any person is considering making an Acquisition Proposal or (iii) any request for nonpublic information relating to Monterey or any subsidiary of Monterey or for access to the properties, books or records of Monterey or any subsidiary of Monterey by any person that may be considering making, or has made, an Acquisition Proposal. Monterey has agreed to keep Texaco fully informed of the status of any such Acquisition Proposal or request. Monterey has further agreed to, and has agreed to cause its subsidiaries and the directors, officers and financial and legal advisors of Monterey and its subsidiaries to, cease immediately and cause to be terminated all activities, discussions or negotiations, if any, with any persons conducted with respect to any Acquisition Proposal prior to the execution of the Merger Agreement.

Monterey Board's Covenant to Recommend. The Monterey Board has agreed to recommend the approval and adoption of the Merger Agreement to Monterey stockholders. Notwithstanding the foregoing, the Monterey Board is permitted to withdraw or modify in a manner adverse to Texaco its recommendation, but only if and to the extent the Monterey Board concludes that such withdrawal or modification is required to comply with its fiduciary duties under applicable law after advice to that effect by Andrews & Kurth.

Reasonable Best Efforts. Each party has agreed to use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions contemplated by the Merger Agreement.

Certain Employee Benefits Matters. The Merger Agreement provides that, from the first of the month following the Effective Time, the non-represented employees of Monterey and its subsidiaries will commence participation in Texaco's benefit plans. Texaco shall (subject to the following sentence) recognize an employee's service with Monterey and Santa Fe for eligibility, vesting, accrual and determination of benefits in its benefit plans to the extent that such service was recognized for such purposes by Monterey or Santa Fe. Texaco's retirement plan shall provide to each non-represented employee of Monterey and its subsidiaries at normal retirement a pension benefit which will equal the pension benefit that would be provided

under Texaco's retirement plan, recognizing all such employee's pensionable service with Santa Fe's pension plan as of the Effective Time under its non-contributory formula, less the employee's vested pension benefit accrued under Santa Fe's pension plan as of July 25, 1997. Texaco has also agreed to honor Monterey's severance plan in effect on August 17, 1997 for two years following the Effective Time.

Texaco's Standstill. Texaco has agreed, until the earlier to occur of June 30, 1998 and the receipt by Monterey, or the public announcement, of an Acquisition Proposal, and except as contemplated by the Merger Agreement, not to (i) acquire any securities or assets of Monterey, enter into any merger or business combination or tender or exchange offer involving Monterey or any of its subsidiaries, effect any recapitalization or restructuring with respect to Monterey, solicit any proxies or consents to vote with respect to any voting securities of Monterey, or propose, offer, cause or participate in any of the foregoing; (ii) form, join or participate in a "group" (as defined under the 1934 Act); (iii) otherwise act, alone or in concert with others, to seek to control or influence, the Monterey Board, or policies of Monterey; (iv) take any action which would require Monterey to make a public announcement regarding any of the types of matters set forth in (i) above; or (v) enter into any discussions or arrangements with any third party with respect to any of the foregoing.

Indemnification and Insurance of Monterey Directors and Officers. Texaco has agreed that for six years after the Effective Time, it will cause Monterey to indemnify and hold harmless the present and former directors and officers of Monterey, to the extent provided under Monterey's certificate of incorporation and bylaws in effect on the date of the Merger Agreement, against certain liabilities. Texaco has further agreed to cause Monterey to use best efforts to maintain in effect for six years after the Effective Time certain directors' and officers' liability insurance coverage for Monterey directors and officers. See "Interests of Certain Persons in the Merger and Related Matters--Indemnification and Insurance."

Certain Other Covenants. The Merger Agreement contains certain mutual covenants of the parties, including covenants relating to: actions to be taken so as not to jeopardize the intended tax treatment of the Merger; public announcements; notification of certain matters; access to information; further assurances; cooperation in connection with certain governmental filings and in obtaining consents and approvals; and confidential treatment of non-public information.

Certain Representations and Warranties

The Merger Agreement contains substantially reciprocal representations and warranties made by Monterey and Texaco as to, among other things: due organization and good standing; corporate authorization to enter into the contemplated transactions; governmental approvals required in connection with the contemplated transactions; absence of any breach of organizational documents and certain material agreements as a result of the contemplated transactions; capitalization; filings with the SEC; financial statements; absence of certain material changes (including changes which would have a material adverse effect) since June 30, 1997; absence of undisclosed material liabilities; compliance with laws and court orders; litigation; tax matters; employee matters; environmental matters; tax treatment of the Merger; and information included in this Proxy Statement/Prospectus. "Material adverse effect" means any change, effect, event, occurrence or state of facts that has had, or would reasonably be expected to have, a material adverse effect on the business, operations, assets, liabilities, condition (financial or otherwise) or results of operations of Texaco and its subsidiaries, taken as a whole, or Monterey and its subsidiaries, taken as a whole, as the case may be.

In addition, Monterey has represented to Texaco as to, among other things: advisors' fees and opinions; subsidiaries; patents and other proprietary rights; and status and operation of oil and gas properties. Monterey has further represented to Texaco that neither Section 203 of the DGCL nor any other antitakeover or similar statute or regulation applies or purports to apply to the transactions contemplated by the Merger Agreement, and that it has taken all action necessary to render the rights issued pursuant to the terms of the rights agreement (as amended, the "Monterey Rights Agreement") entered into between Monterey and First Chicago Trust Company of New York, as rights agent (the "Monterey Rights Agent") inapplicable to the Merger Agreement and the transactions contemplated thereby. See "Comparison of Stockholder Rights--Comparison of Current Monterey Stockholder Rights and Rights of Texaco Stockholders Following the Merger--Monterey Rights Plan" below.

The representations and warranties in the Merger Agreement do not survive the Effective Time.

Conditions to the Merger

Conditions to Each Party's Obligations to Effect the Merger. The obligations of Texaco, Monterey and Merger Subsidiary to consummate the Merger are subject to the satisfaction of the following conditions:

(i) receipt of the approval of Monterey stockholders;

(ii) the applicable waiting period under the HSR Act having expired or been terminated;

(iii) no applicable law or regulation, judgment, injunction, order or decree prohibiting or enjoining the consummation of the Merger;

(iv) the registration statement of which this Proxy Statement/Prospectus is a part having become effective under the 1933 Act and not being subject to any stop order or related proceedings by the SEC; and

(v) the shares of Texaco Common Stock to be issued in the Merger having been approved for listing on the NYSE, subject to official notice of issuance.

Conditions to the Obligations of Texaco and Merger Subsidiary. The obligations of Texaco and Merger Subsidiary to effect the Merger are further subject to the satisfaction of the following conditions:

(i) the performance in all material respects by Monterey of its obligations under the Merger Agreement at or prior to the Effective Time;

(ii) the representations and warranties of Monterey contained in the Merger Agreement being true in all material respects at and as of the Effective Time as if made at and as of such time;

(iii) Texaco having received the legal opinion of Davis Polk & Wardwell to the effect that the Merger will be treated for federal income tax purposes as a reorganization qualifying under the provisions of Section 368(a) of the Code; and

(iv) Monterey having received an opinion of Andrews & Kurth to the effect that neither the entering into of the Merger Agreement by Monterey nor the consummation of the Merger will affect the tax-free status of the Spin Off.

Conditions to the Obligations of Monterey. The obligation of Monterey to effect the Merger is further subject to the satisfaction of the following conditions:

(i) the performance in all material respects by Texaco and Merger Subsidiary of their obligations under the Merger Agreement at or prior to the Effective Time;

(ii) the representations and warranties of Texaco contained in the Merger Agreement being true in all material respects at and as of the Effective Time as if made at and as of such time; and

(iii) Monterey having received the legal opinion of Andrews & Kurth to the effect that the Merger will be treated for federal income tax purposes as a reorganization qualifying under the provisions of Section 368(a) of the Code.

Termination of the Merger Agreement

Right to Terminate. The Merger Agreement may be terminated at any time prior to the Effective Time as follows:

(i) by mutual written consent of Monterey and Texaco;

(ii) by either Monterey or Texaco: (a) if the Merger has not been consummated by March 31, 1998 (but neither Monterey nor Texaco may terminate if that party's breach is the reason that the Merger has not been consummated); (b) if the stockholders of Monterey fail to approve and adopt the Merger Agreement at the Special Meeting (or any adjournment thereof); or (c) any law or regulation makes consummation of the Merger illegal or otherwise prohibited or if any judgment, injunction, order or decree enjoining Monterey, Texaco or Merger Subsidiary from consummating the Merger is entered and such judgment, injunction, order or decree has become final and non-appealable; or

(iii) by Texaco: if (a) the Monterey Board has withdrawn or modified in a manner adverse to Texaco its approval or recommendation of the Merger; or (b) Monterey violates its obligation set forth above under "--Certain Covenants--No Solicitation by Monterey," does not call the Special Meeting or does not use its reasonable best efforts to prepare, have cleared and mail the proxy materials for the Special Meeting. See "--Certain Covenants--Special Meeting; Proxy Material" and "--Certain Covenants--No Solicitation by Monterey" on page 25 for discussion of these covenants.

If the Merger Agreement is validly terminated, no provision thereof shall survive (except for the provisions relating to Texaco's standstill obligations, confidentiality, termination fees and expenses, governing law, jurisdiction and waiver of a jury trial) and such termination shall be without any liability on the part of any party, unless such party is in willful or grossly negligent breach of any provision of the Merger Agreement. The confidentiality agreement entered into between Monterey and Texaco on August 11, 1997 will continue in effect notwithstanding termination of the Merger Agreement.

Termination Fee and Expenses Payable by Monterey. Monterey has agreed to pay Texaco $35 million if the Merger Agreement is terminated in the circumstances described in paragraph (ii) (b) under "--Right to Terminate" (but only if both an Acquisition Proposal with respect to Monterey is publicly announced prior to the stockholder vote and Monterey shall have entered into, or publicly announced its intention to enter into, an agreement with respect to any Acquisition Proposal prior to June 30, 1998) or in the circumstances described in paragraph (iii) under "--Right to Terminate."

Amendments; No Waivers

Any provision of the Merger Agreement may be amended or waived prior to the Effective Time only if the amendment or waiver is in writing and signed, in the case of an amendment, by Monterey, Texaco and Merger Subsidiary, or, in the case of a waiver, by the party against whom the waiver is to be effective; provided that after the approval of the Merger Agreement by the stockholders of Monterey, no amendment or waiver shall, without the further approval of the Monterey stockholders, reduce the amount or change the kind of consideration to be received in exchange for any shares of capital stock of Monterey.

SPECIAL MEETING

This Proxy Statement/Prospectus is furnished in connection with the solicitation of proxies from the holders of Monterey Common Stock by the Monterey Board for use at the Special Meeting. This Proxy Statement/Prospectus and accompanying form of proxy are first being mailed to the stockholders of Monterey on or about October 1, 1997.

Time and Place; Purpose

The Special Meeting will be held at 10:00 a.m., California time, on November 4, 1997 at The Doubletree Inn, 3100 Camino Del Rio Court, Bakersfield, California. At the Special Meeting (and any adjournment or postponement thereof), the stockholders of Monterey will be asked to consider and vote upon the approval and adoption of the Merger Agreement and the Merger and such other matters as may properly come before the Special Meeting.

Monterey stockholder approval and adoption of the Merger and the Merger Agreement is required by the DGCL.

The Monterey Board has unanimously approved the terms of the Merger Agreement and the consummation of the Merger contemplated thereby, unanimously believes that the terms of the Merger and the Merger Agreement are fair to, and in the best interests of, Monterey and its stockholders, and unanimously recommends that holders of Monterey Common Stock vote "for" approval and adoption of the Merger and the Merger Agreement.

One or more representatives of Price Waterhouse LLP are expected to be present at the Special Meeting to answer appropriate questions of stockholders of Monterey and to make a statement if so desired.

Record Date; Voting Rights and Proxies

Only holders of record of Monterey Common Stock at the close of business on September 26, 1997 (the "Record Date") are entitled to notice of and to vote at the Special Meeting. As of the Record Date, there were 54,791,751 shares of Monterey Common Stock outstanding, each of which entitled the holder thereof to one vote. There were approximately 33,700 holders of record on the Record Date.

All shares of Monterey Common Stock represented by properly executed proxies will, unless such proxies have been previously revoked, be voted in accordance with the instructions indicated in such proxies. If no instructions are indicated, such shares of Monterey Common stock will be voted "for" approval and adoption of the Merger and the Merger Agreement. Monterey does not know of any matters other than the approval of the Merger and the Merger Agreement that are to come before the Special Meeting. If any other matter or matters are properly presented for action at the Special Meeting, the persons named in the enclosed form of proxy and acting thereunder will have the discretion to vote on such matters in accordance with their best judgment. A stockholder who has given a proxy may revoke it at any time prior to its exercise by giving written notice of revocation to Monterey by signing and returning a later dated proxy, or by voting in person at the Special Meeting. Votes cast by proxy or in person at the Special Meeting will be tabulated by the inspector of election appointed for the meeting.

Solicitation of Proxies

Proxies are being solicited by and on behalf of the Monterey Board. In addition to solicitation by use of the mails, proxies may be solicited by directors, officers and employees of Monterey in person or by telephone, telegram or other means of communication. Such directors, officers and employees will not be additionally compensated, but may be reimbursed for out-of-pocket expenses incurred in connection with such solicitation. Arrangements have also been made with brokerage firms, banks, custodians, nominees and fiduciaries for the forwarding of proxy solicitation materials to owners of Monterey Common Stock held of record by such persons and in connection therewith such firms will be reimbursed for reasonable expenses incurred in forwarding such materials. Monterey has retained Morrow & Co. to assist in the solicitation of proxies from its stockholders. The total fees and expenses of Morrow & Co. are estimated to aggregate $17,000 and will be paid by Monterey.

Monterey stockholders should not send any certificates representing Monterey Common Stock with their proxy cards. Following the

Effective Time, Monterey stockholders will receive instructions for the surrender and exchange of such stock certificates.

Quorum

The presence in person or by properly executed proxy of a majority of the issued and outstanding shares of Monterey Stock entitled to vote is necessary to constitute a quorum at the Special Meeting.

Required Vote, Failure to Vote and Broker Non-Votes

Approval and adoption of the Merger and the Merger Agreement requires the affirmative vote of a majority of the outstanding shares of Monterey Common Stock. On August 31, 1997, Monterey directors, executive officers, and their affiliates owned and were entitled to vote 5,183,539 shares of Monterey Common Stock, or approximately 9.5% of the shares of Monterey Common Stock outstanding on that date.

Any failure to vote will have the effect of a vote against the Merger and the Merger Agreement.

Under NYSE rules, brokers who hold shares in street name for customers have the authority to vote on certain "routine" proposals when they have not received instructions from beneficial owners. However, such brokers are precluded from exercising their voting discretion with respect to the approval and adoption of non-routine matters such as the Merger and the Merger Agreement and, thus, absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote such shares with respect to the Merger and the Merger Agreement. These "broker non-votes" will therefore have the effect of a vote against the Merger and the Merger Agreement.

BUSINESS OF MONTEREY

As used herein, the following terms have the specific meanings set out: "Bbl" means barrel, "MBbl" means thousand barrels, "MMBbl" means million barrels, "Mcf" means thousand cubic feet, "MMcf" means million cubic feet, "Bcf" means billion cubic feet, "BOE" means barrel of oil equivalent, "MBOE" means thousand barrels of oil equivalent, and "MMBOE" means million barrels of oil equivalent. Natural gas volumes are converted to barrels of oil equivalent using the ratio of 6.0 Mcf of natural gas to 1.0 barrel of crude oil. Unless otherwise indicated, natural gas volumes are stated at the legal pressure base of the state or area in which the reserves are located and at 60 degrees Fahrenheit. "Improved recovery," "enhanced oil recovery" and "EOR" include all methods of supplementing natural reservoir forces and energy, or otherwise increasing ultimate recovery from a reservoir, and include waterfloods, thermal techniques (including cyclic steam, steam flood and in situ combustion operations) and CO(2) (carbon dioxide) injection. "Heavy oil" or "heavy crude" is low gravity, high viscosity crude oil. "Working interest" means an operating interest which gives the owner the right to drill, produce and conduct operating activities on a property and to a share of production and requires the owner to bear a proportionate share of related expenses. "Net revenue interest" means the percentage of production to which the owner of a working interest is entitled. "Net acres" and "net wells" refer to the sum of the fractional working interests owned in gross acres and gross wells, respectively. Unless otherwise indicated, references to "reserves" mean net proved reserves and references to "wells" mean gross wells.

General

Monterey is an independent oil and gas company engaged in the production, development and acquisition of oil and natural gas, principally in the State of California. Monterey's principal executive offices are located at 5201 Truxtun Avenue, Bakersfield, California, 93309. Monterey was formed in 1996 to own the properties and conduct the business of the Western Division of Santa Fe (the "Western Division"). In November 1996, Monterey completed an initial public offering of 17.8% of the outstanding Monterey Common Stock. Until July 25, 1997, Santa Fe owned 82.8% of the outstanding Monterey Common Stock.

The discussions and financial information included herein with respect to the years ended December 31, 1995 and prior relate to the operations of the Western Division. The discussion with respect to the year ended December 31, 1996 relate to the operations of the Western Division for January through October and the operation of Monterey for November and December.

At December 31, 1996 Monterey reported net proved reserves of approximately 218 MMBOE with a pre-tax net present value, discounted at 10%, of approximately $1.05 billion ($680.7 million after tax), according to estimates prepared by Ryder Scott Company, independent petroleum engineers ("Ryder Scott"). In 1996, Monterey's operations generated total revenues of approximately $292.9 million and net income of approximately $50.3 million. During the year ended December 31, 1996, Monterey's average production was approximately 47.4 MBOE per day, resulting in a reserve-to-production ratio of 12.6 years.

In July, 1997 Monterey acquired McFarland Energy, Inc. ("McFarland"), an oil and gas exploration and production company whose principal producing properties are located in the Midway-Sunset field adjacent to properties owned by Monterey. Monterey paid $18.55 per share in cash for each of the 5.7 million outstanding common shares of McFarland or a total of approximately $106 million. At December 31, 1996, McFarland reported proved reserves of 13.7 MMBbls of oil and condensate and 19.8 Bcf of natural gas (17.0 MMBOE oil equivalent) with a pre-tax net present value, discounted at 10% of approximately $115.0 million ($90.0 million after tax), according to estimates prepared by McFarland. During the year ended December 31, 1996,

McFarland's average production was approximately 4.6 MBOE per day.

Monterey owns and operates properties in four major oil producing fields located in the San Joaquin Valley of California: Midway-Sunset, Kern River, South Belridge and Coalinga. These fields include the Midway-Sunset, Kern River and South Belridge fields, which are the three largest producing oil fields in the lower 48 states. The Midway-Sunset field accounted for approximately 75% of Monterey's total proved reserves at December 31, 1996 and 74% of its average daily production for 1996. An additional 18% of Monterey's total proved reserves as of December 31, 1996, and 21% of its average daily production for 1996 were attributable to the Kern River, South Belridge and Coalinga fields. Monterey initiated production from the San Joaquin Valley fields in 1905 and nearly all of the reserves in these fields have been characterized by low gravity and high viscosity or "heavy" oil, the production of which depends primarily on thermally enhanced recovery techniques. Monterey holds an interest in approximately 16,000 gross acres in these fields with an average working interest in these properties of approximately 99%.

Reserves

The table set forth below demonstrates the growth in Monterey's proved reserve base, as estimated by Ryder Scott. The information set forth below with respect to such estimates constitutes a fair and accurate summary of the report of Ryder Scott.

		Increases		(Decreases)			
	Balance at Beginning of Period	Revision of Previous Estimates	Improved Recovery	Extensions, Discoveries and Additions	Net Purchases (Sales) of Minerals in Place	Production	Balance at End of Period
Proved Reserves at December 31, 1994:							
Oil and Condensate (MMBbls)..	183.6	9.9	12.6	--	0.2	(15.1)	191.2
Gas (Bcf).....	11.8	2.9	--	--	0.1	(1.4)	13.4
Oil Equivalent (MMBOE).....	185.6	10.4	12.6	--	0.2	(15.3)	193.5
Proved Reserves at December 31, 1995:							
Oil and Condensate (MMBbls)..	191.2	9.7	13.7	--	0.1	(15.2)	199.5
Gas (Bcf).....	13.4	0.9	--	--	--	(1.9)	12.4
Oil Equivalent (MMBOE).....	193.5	9.8	13.7	--	0.1	(15.5)	201.6
Proved Reserves at December 31, 1996:							
Oil and Condensate (MMBbls)..	199.5	12.0	14.4	--	7.6	(17.1)	216.4
Gas (Bcf).....	12.4	1.1	--	--	--	(1.3)	12.2
Oil Equivalent (MMBOE).....	201.6	12.1	14.4	--	7.6	(17.3)	218.4(1)

	December 31,		
	1994	1995	1996
Proved Developed Reserves (MMBOE).....	141.8	158.6	172.6

(1) At December 31, 1996 McFarland reported proven reserves of 13.7 MMBbls of oil and condensate and 19.8 Bcf of natural gas (17.0 MMBOE oil equivalent). Such amounts are not included in this table.

Heavy oil properties characteristically contain large amounts of original oil in place which is usually recovered through the application of a series of recovery processes over a long period of time. The determination of ultimate recoverability from heavy oil properties can be relatively difficult to predict. In addition to the proved reserves reflected in the foregoing table, Ryder Scott has identified unrisked probable and possible reserves totalling 152 MMBOE and 155 MMBOE, respectively, at December 31, 1996 which are currently too uncertain of recovery to be categorized as proven. Most of such reserves are of the undeveloped category and will, if they become recoverable, require significant additional development expenditures to be produced. Over and above Ryder Scott's estimates Monterey has also identified approximately 340 MMBOE of reserves on existing properties that could potentially be recovered if higher ultimate recovery factors can be achieved by improved technology. Reserve estimates that cannot be categorized as proven are highly speculative.

In 1996 Monterey began to implement its plan to accelerate growth in both production and reserves by increasing its investment in development opportunities on its existing properties and tactical acquisitions in 1996 to $52.2 million, an increase of $17.3 million above the $34.9 million per year average of the previous four years. The 1996 investment program added 34.2 MMBOE of proved reserves at a cost of $1.53 per BOE. Reserve additions were 197% of Monterey's 1996 production of 17.3 MMBOE. During the five years ended December 31, 1996, Monterey spent a total of $172.9 million (an average of $34.6 million per year) on development activities on its properties. Cumulative production from Monterey's properties during the same five-year period exceeded 79.8 MMBOE while additions to proved reserves exceeded 111.4 MMBOE (yielding 31.6 MMBOE net additions after production).

Based on reservoir engineering studies prepared by Ryder Scott, Monterey believes that it can continue to make significant additions to proved

reserves on its properties through additional EOR and development projects, and Monterey has developed a large inventory of such projects from which it expects to make such additions. Monterey anticipates spending approximately $75 million during 1997 on additional development projects on its properties. Because the actual amounts expended in the future and the results therefrom will be influenced by numerous factors, including many beyond Monterey's control, and due to the inherent uncertainty to reservoir engineering studies, no assurances can be given as to the amounts that will be expended or, if expended, that the results therefrom will be consistent with Monterey's prior experience or expectations.

During 1996 Santa Fe filed Energy Information Administration Form 23 which reported natural gas and oil reserves for the year ended December 31, 1995. The reserve estimates reported on Form 23 are not comparable with the reserve estimates reported herein because Form 23 requires that reserves be reported on a gross operated basis rather than on a net interest basis. On an equivalent barrel basis, the reserve estimates for the year 1995 contained in such report and those reported herein for the year ended December 31, 1995 do not differ by more than five percent.

Strategy

Monterey's strategy is to efficiently and consistently increase its production rates and proved reserves while maximizing total return to stockholders. Monterey intends to achieve its objectives by developing its existing fields through the deployment of advanced production techniques, by pursuing reserve acquisition opportunities which are consistent with its geographic and operational strengths, and by maintaining a dividend policy that will provide a significant current return to stockholders. Key elements of Monterey's production and reserve growth strategy include:

Aggressive Exploitation of its Large Development Inventory. During 1996 Monterey completed 317 well operations (which include development and injection wells, workovers, and recompletions) on relatively low risk development and infill drilling opportunities at a cost of $48.7 million, adding 26.6 MMBOE at a finding and development cost of $1.83 per BOE. This activity level compares with an average of 222 well operations per year over the previous four years. Monterey expects to complete more than 480 well operations in 1997 with budgeted capital expenditures of approximately $75 million. Monterey believes that its sizable project inventory will allow it to continue to increase its production and reserves over the next several years.

Increased Horizontal Drilling. In order to increase production and ultimate reserve recovery on its existing properties, Monterey began utilizing horizontal drilling in 1995 and expanded its use in 1996. As of December 31, 1996 Monterey had a total of eight horizontal wells on production, including seven wells that were drilled in 1996. These wells, which are all in the Midway-Sunset field and incorporate several methods of steam assisted gravity drainage, are currently producing at rates ranging from 20 to 200 Bbls per day per well (an average of 70 Bbls per day per well as of July 1, 1997) compared to a range of 5 to 25 Bbls per day for the typical vertical wells. Performance of both vertical and horizontal wells are directly related to the temperature of the formation in the immediate wellbore area with the higher performance being exhibited by the wells that are hotter due to steam input to the formation. Monterey expects to complete 43 additional horizontal wells by the end of 1997 at an expected capital cost of approximately $18 million, although the actual number of horizontal wells drilled could be increased or decreased based upon the results realized from the horizontal wells completed. Monterey believes that this technology represents a significant opportunity for more cost effective development, increased reserves and increased production and total recovery rates from its properties.

Low Cost Producer. Monterey believes that its finding costs and producing costs are among the lowest for heavy crude producers in the United States. Due to the reservoir characteristics of Monterey's producing properties and the extensive development activities conducted to date thereon, such properties are well suited to low cost development and exploitation drilling. For example, Monterey's average finding cost for the three years ended December 31, 1996 was $1.58 per BOE. In addition, continuing cost control efforts have contributed to the reduction of its non-fuel production and operating costs from $3.56 per BOE in 1995 to $3.53 per BOE in 1996. This reduction continues a long-term trend in which Monterey has reduced non-fuel production and operating expenses about 20% since 1992. The 1996 fuel costs were $2.69 per BOE, up from $1.98 per BOE in 1995, largely due to higher natural gas prices. Monterey plans to continue to pursue operational efficiencies, including facilities upgrades and process consolidations with adjoining producers, to further reduce both finding and producing costs.

Application of Advanced Technologies. Monterey will continue to utilize its growing technology base, including increasing use of 3-D seismic surveys, waterfloods, thermal EOR techniques including applications to substantial deposits of heavy oil in Diatomite formations on its Midway-Sunset properties, new fracturing techniques and reservoir modeling. Monterey believes that 3-D seismic techniques may identify significant additional reserves. As part of a joint venture with Chevron U.S.A., Inc., Monterey completed 3-D seismic data acquisition and processing in mid-1997 on a large acreage block that includes a portion of its Midway-Sunset properties. Monterey has extensive experience with EOR techniques which it has improved over time and has conducted various types of steam and in situ combustion operations on its properties since the 1960s. Monterey is currently focusing on efficient reservoir heat management techniques, which are intended to optimize recoveries and minimize fuel costs. Technologies as diverse as down-hole steam generation and microbial production enhancement are part of the Monterey's ongoing pursuit of better technology. Monterey believes that its expertise in utilizing advanced technologies will allow it to identify and recover additional reserves in its existing properties.

Development Activities

Monterey is engaged in development activities primarily through the application of thermal EOR techniques on its heavy oil properties in the San Joaquin Valley. Thermal EOR operations involve the injection of steam into a reservoir to raise the temperature and reduce the viscosity of heavy oil, facilitating the flow of the oil into producing wellbores. Monterey has conducted thermal EOR projects in the San Joaquin Valley since the mid-1960s and employs two principal techniques: cyclic steam stimulation, which involves the injection of steam through a wellbore for a period of days or weeks after which the same wellbore is used to produce oil, typically for a period of weeks or months; and steam flooding, a process by which steam is injected into the center of a well pattern and oil is produced from surrounding producing wells. In addition, Monterey has begun to utilize horizontal drilling in conjunction with the steam projects already deployed. Based on results of the horizontal wells drilled to date Monterey believes that horizontal wells can achieve production rates up to 10 times greater than the typical vertical well and drain portions of reservoirs that cannot be economically drained by vertical wells. Monterey also employs a third technique, referred to as in situ combustion, in which air is injected into a dedicated wellbore, a combustion zone is established within a reservoir to heat the oil and reduce its viscosity and oil is produced from surrounding wellbores. In addition to these thermal techniques, Monterey has extensive experience in the use of waterfloods, which involves the injection of water into a reservoir to drive hydrocarbons into producing wellbores.

In 1996 Monterey spent $48.7 million in development work including the drilling of vertical infill and step-out wells and seven horizontal wells, the addition of 39 steamflood patterns and the expansion of key facilities to serve increased production and steam volumes. The majority of the 1996 development activity was focused at Midway-Sunset and Kern River and resulted in a combined net oil production increase from December 31, 1995 to December 31, 1996 of 4.3 MBbls per day. Development work was also done in 1996 in the Coalinga, South Belridge.

Significant Producing Properties

Monterey's production and reserves are concentrated in four giant fields (a giant field is a field with ultimate producible reserves in excess of 100 MMBOE) in California's San Joaquin Valley. These fields, Midway-Sunset, Kern River, South Belridge and Coalinga, account for 95% of Monterey's net production and 93% of Monterey's proved reserves. Monterey's properties in these fields are generally highly concentrated and equipped with an efficient centralized infrastructure.

Midway-Sunset. Monterey owns and operates a 100% working interest (96% average net revenue interest) in over 13,000 gross acres and 2,300 producing wells in the Midway-Sunset field. The Midway-Sunset field is the largest producing oil field in the lower 48 states and Monterey is currently the second largest producer in the field and has operated there continuously since 1905. Substantially all of the oil produced from the Midway-Sunset field is heavy crude oil located in the Pleistocene, Pliocene and Miocene reservoirs at depths of less than 2,000 feet. Producing formations include (in order of increasing depth) the Tulare and Etchegoin formations as well as the Potter, Spellacy and Diatomite horizons of the Monterey formation.

During 1996, Monterey's properties at Midway-Sunset produced at record levels averaging 35.1 MBbls per day for the year, an increase of 2.5 MBbls per day over the average for 1995, and accounted for 74% of Monterey's 1996 crude production. Total December 31, 1996 proved reserves for Monterey's Midway-Sunset properties were approximately 164.5 MMBOE, representing approximately 75% of Monterey's total proved reserves. Monterey's investment in development drilling, cyclic steam injection, steamflood, in situ combustion and horizontal drilling in Midway-Sunset was approximately $35 million in 1996 compared to an average of $23 million per year over the previous four years and production has increased from approximately 29.5 MBbls per day in 1992 to over 35.8 MBbls per day in December 1996.

Despite record levels of production, Monterey believes, based on reservoir engineering studies prepared by Ryder Scott, that it can continue to make significant additions to its proved reserves in this field through additional EOR and development projects. While most of Monterey's EOR efforts in this field have concentrated on the Potter horizon, Monterey believes that these techniques may generate similar production and reserve additions in each of the Spellacy, Tulare and Diatomite horizons. Monterey has identified in excess of 1,300 well operations that could be undertaken in the field and anticipates completing 336 of these operations (including 40 horizontal wells) in 1997 at an estimated capital cost of $61.0 million.

The McFarland acquisition added 175 wells and 130 acres in the Midway-Sunset field, increasing Monterey's net production by approximately 3,000 barrels per day and adding several horizontal and vertical development locations.

Kern River. Monterey owns and operates a 100% working interest (91% average net revenue interest) in four properties in the Kern River field. The Kern River field is the second largest producing oil field in the lower 48 states and Monterey has operated there continuously since 1905. Most of the oil produced from the Kern River field is heavy crude oil produced from Plio-Pleistocene reservoirs at depths of less than 1,000 feet. During 1996, the Kern River field accounted for approximately 11% of Monterey's total crude production. As of December 31, 1996, Monterey's total proved reserves in the Kern River field were approximately 19.1 MMBOE, or approximately 9% of its total proved reserves.

Monterey's production from the Kern River field has increased from approximately 2 MBbls per day in 1990 to approximately 5 MBbls per day in

1996. Capital expenditures over the same period of time have increased from $2.0 million in 1991 to $6.0 million in 1996.

As with the Midway-Sunset field, management believes, based on engineering studies prepared by Ryder Scott, that Monterey can continue to make significant additions to its proved reserves in the Kern River field through additional thermal development projects. Monterey has identified 94 well operations (including 4 horizontal wells) that could be undertaken in the field and anticipates completing 43 of these operations in 1997 at an estimated capital cost of $3.0 million.

South Belridge. Monterey has a 46% average working interest (40% average net revenue interest) in its properties in the South Belridge field, which is located 15 miles north of the Midway-Sunset field. Monterey acquired interests in the South Belridge field in 1987 and expanded its holdings in 1991. The South Belridge field is the third highest producing oil field in the lower 48 states. The field produces both heavy and light crude from Tulare, Etchegoin and Diatomite formations equivalent to those found in the Midway-Sunset field, generally at depths of less than 2,000 feet. During 1996, the South Belridge field accounted for approximately 5% of Monterey's total crude production. As of December 31, 1996, Monterey's total proved reserves in the South Belridge field were approximately 13.8 MMBOE, or approximately 6% of its total proved reserves.

Monterey has identified 106 additional drilling and remediation projects (including one horizontal well) in the South Belridge field and anticipates completing 56 of the projects by the end of 1997 at an estimated cost of approximately $4.0 million.

Coalinga. Monterey has a 100% average working interest (84% average net revenue interest) in its properties in the Coalinga field which is located 55 miles southwest of Fresno, California. During 1996, the Coalinga field accounted for approximately 5% of Monterey's crude production. As of December 31, 1996, Monterey's total proved reserves in the Coalinga field were approximately 5.6 MMBOE, or approximately 3% of its total proved reserves.

Monterey acquired its interest in the Coalinga field in 1977. Monterey has identified 167 additional drilling and remediation projects (including two horizontal wells) in the Coalinga field and anticipates completing 47 of the projects by the end of 1997 at an estimated cost of approximately $5.0 million.

LA Basin. Monterey has an average 30% working interest (24% aggregate net revenue interest) in four producing properties in Los Angeles and Orange Counties and the Federal Outer Continental Shelf in southern California (the "LA Basin"). During 1996, Monterey's LA Basin properties accounted for approximately 5% of Monterey's total crude production. As of December 31, 1996, Monterey's total proved reserves in the LA Basin were approximately 14.7 MMBOE, or approximately 7% of its total proved reserves.

The McFarland acquisition added approximately 475 barrels per day of net oil production from several fields in the LA Basin and the Barham Ranch Field on the central California coast. In August 1997, Monterey acquired the remaining working interest at Barham Ranch not owned by McFarland for approximately $5.0 million, resulting in the addition of approximately 220 barrels per day of net oil production.

Development, Exploration and Acquisition Activities. The following table shows Monterey's total oil and gas development, exploration and acquisition expenditures (including capitalized interest and allocated exploratory support costs), whether capitalized or charged to expense, since the beginning of 1992 through December 31, 1996.

	Year Ended December 31,				
	1992	1993	1994	1995	1996
	(in millions)				
Development costs(1).	$17.0	$38.4	$22.7	$47.7	$47.1
Exploration costs....	2.8	1.7	1.4	2.6	1.6
Acquisition costs:					
Unproved leasehold..	--	--	--	0.1	0.1
Proved properties...	0.1	3.6	--	1.3	3.4
Total.....	$19.9	$43.7	$24.1	$51.7	$52.2

(1) Development expenditures include costs of EOR projects, infill drilling and primary development drilling of offset wells.

Monterey continually evaluates acquisitions of producing and non-producing oil and gas properties that would add to its reserve base and present additional development opportunities at attractive prices. From 1994 through 1996, Monterey spent approximately $4.7 million to purchase an estimated 7.9 MMBOE of proved oil and gas reserves in California. Although Monterey may pursue opportunities in other areas, Monterey plans to focus primarily on areas contiguous with, or in close proximity to, its existing operations. Future acquisitions will depend upon, among other things, the availability of opportunities to purchase reserves that would complement Monterey's existing properties and that would meet or exceed Monterey's economic criteria with respect to, among other things, cost of reserve additions, the availability of funding on acceptable terms and other projects to which Monterey may be committed that would compete with the personal or

capital resources required to be dedicated to a particular acquisition opportunity.

Drilling Activities. The table below sets forth, for the periods indicated, the number of wells drilled in which Monterey had an economic interest.

	Year Ended December 31,					
	1994		1995		1996	
	Gross	Net	Gross	Net	Gross	Net
Development wells:						
Completed	78	70.2	224	209.2	224	215.2
Dry holes	1	1.0	--	--	3	3.0
Total	79	71.2	224	209.2	227	218.2
Exploration wells:						
Dry holes	--	--	3	3.0	1	0.4
Total	79	71.2	227	212.2	228	218.6

Producing Wells. The following table sets forth Monterey's ownership in producing wells at December 31, 1996:

	Gross	Net
Oil	5,639	5,102.7
Natural Gas	2	0.2
Total	5,641	5,102.9

Acreage. The following table summarizes Monterey's developed and undeveloped fee and leasehold acreage at December 31, 1996. Excluded from such information is acreage in which Monterey's interest is limited to royalty, overriding royalty and other similar interests.

	Developed		Undeveloped		Total	
Field	Gross	Net	Gross	Net	Gross	Net
Midway-Sunset	12,795	12,787	320	320	13,115	13,107
Kern River	755	755	--	--	755	755
South Belridge	919	710	--	--	919	710
Coalinga	1,474	1,474	--	--	1,474	1,474
LA Basin	1,244	1,241	229	229	1,473	1,470
Other	19,809	4,603	6,053	6,053	25,862	10,656
Total	36,996	21,570	6,602	6,602	43,598	28,172

Current Markets for Oil and Gas. Monterey's profitability is determined in large part by the difference between the prices received for the oil and natural gas that it produces and the costs of finding, developing and producing such reserves. Even relatively modest changes in oil and natural gas prices may significantly change Monterey's revenues, results of operations, cash flows and proved reserves. Based on operating results for the first half of 1997, Monterey estimates that on an annualized basis a $1.00 per barrel increase (or decrease) in its average crude oil sales price would result in an $18.2 million increase (or decrease) in income from operations and an $11.0 million increase (or decrease) in cash flow from operating activities. Because Monterey is a relatively small producer of natural gas, it consumes more gas in its EOR operations than it produces. As a result, an increase in natural gas prices adversely affects Monterey's results of operations. Based on operating results for the first half of 1997, Monterey estimates that on an annualized basis a $0.10 per Mcf increase (or decrease) in the average domestic natural gas sales price would result in a $1.8 million decrease (or increase) in income from operations and a $1.0 million decrease (or increase) in cash flow from operating activities. The foregoing estimates do not give effect to changes in any other factors, such as the effect of depreciation and depletion that would result from a change in oil and natural gas prices.

The market for heavy crude oil produced in California differs substantially from the remainder of the domestic crude oil market, due principally to the transportation and refining requirements associated with heavy crude. Although the prices realized for heavy crude oil are generally lower than those realized from the sale of light crude oil, several economic trends have favorably affected the market for Monterey's production in recent years. In addition to the current favorable economic trends in California heavy crude prices, Monterey has facilities in place that it believes will allow it to adapt to changes in pricing trends to a greater extent than many

of its competitors. For example, Monterey owns and operates a large gathering, blending and transportation system on its properties in the San Joaquin Valley. At this terminal up to 30 MBbls of heavy oil per day can be mixed or blended with lighter grades, a capability which enables Monterey to upgrade the majority of its heavy oil into a lighter crude which can be sold at a higher price. The terminal also directly connects Monterey's production with five major pipelines serving refineries throughout California and gives Monterey the ability to meet the product specifications of multiple pipelines and inter- and intra-state markets.

Monterey has been allocated its share of Santa Fe's hedged oil and natural gas production. Monterey does not presently hedge any of its production but may do so in the future. See "Monterey Management's Discussion and Analysis of Financial Condition and Results of Operations--General" for a discussion of Monterey's hedging activities.

Customers. During 1996, affiliates of Shell Oil Company and Celeron Corporation accounted for approximately 35% and 22%, respectively, of Monterey's crude oil and liquids sales (which with respect to certain properties includes royalty and working interest owners' shares of production). Monterey has sales contracts with several customers, including Shell and Celeron, which generally provide for sales of Monterey's crude oil and liquids at market responsive prices and are cancelable by either party thereto upon short notice (generally 60 days or less). Because Monterey's markets are characterized by a number of potential customers who are willing to purchase Monterey's crude oil and liquids at market responsive prices, Monterey does not believe that the loss or cancellation of its contracts with Shell or Celeron would have material adverse effect on its financial condition or results of operations. No other individual customer accounted for more than 10% of Monterey's crude oil and liquids revenues during 1996. Substantially all of Monterey's oil production is currently sold at market prices that approximate posted field prices. Availability of a ready market for Monterey's oil production depends on numerous factors, including the level of customer demand, the level of worldwide oil production, the cost and availability of alternative fuels, the availability of refining capacity, the cost of and proximity of pipelines and other transportation facilities, regulation by state and federal authorities and the cost of complying with applicable environmental regulations.

Other Business Matters

Competition. Monterey faces competition in all aspects of its business, including, but not limited to, acquiring reserves, leases and licenses; obtaining goods, services and labor needed to conduct its operations and manage Monterey; and marketing its oil and gas. Monterey's competitors include multinational energy companies, other independent producers, oil and gas syndication programs and individual producers and operators. Many competitors have greater financial and other resources than Monterey and ready access to more favorable markets for their production. Monterey believes that the well-defined nature of the reservoirs in its long-lived oil fields, its expertise in EOR methods, its extensive fee and leasehold acreage position, its regional focus, its active development position and its experienced management may give it a competitive advantage over some other producers, and management believes that Monterey effectively competes in its markets. Availability of a ready market for Monterey's oil and gas production depends on numerous factors, including the level of consumer demand, the extent of worldwide oil production, the cost and availability of alternative fuels, the cost of and proximity of pipelines and other transportation facilities, regulation by state and federal authorities and the cost of complying with applicable environmental regulations.

Environmental Regulation--General. Monterey's operations are subject to Federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Environmental laws and regulations carry substantial penalties for failure to comply. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for pollution resulting from Monterey's operations. State laws often require some form of remedial action to prevent pollution from former operations, such as pit closure and plugging abandoned wells.

These laws and regulations increase Monterey's cost of doing business and consequently affect its profitability. Monterey anticipates that it will expend significant resources, both financial and managerial, to comply with environmental regulations and permitting requirements in order to comply with stricter industry and regulatory environmental and health and safety standards such as those described below. Monterey estimates that capital expenditures necessary for foreseeable environmental control facilities are within normal provisions for maintenance capital expenditures. Although Monterey believes that its operations and facilities are in compliance in all material respects with applicable environmental regulations, risks of substantial costs and liabilities are inherent in oil and gas operations and there can be no assurance that significant cost and liabilities will not be incurred in the future.

Other developments, such as increasingly strict environmental laws and regulations and enforcement policies thereunder, and claims for damages to property, employees, other persons and the environment resulting from Monterey's operations, could result in substantial costs and liabilities in the future. Currently, Monterey does not believe that such costs will have a material adverse effect on its financial condition or results of operations.

Solid and Hazardous Waste. Monterey currently owns or leases numerous properties that have been used for production of oil and gas for many

years. Although Monterey has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or wastes may have been disposed or released on or under these properties. Monterey could be required to remove or remediate previously disposed wastes and any related contamination or to perform remedial plugging operations to prevent future contamination.

Superfund. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, imposes joint and several liability, without regard to fault or the legality of the original conduct, on certain classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of a site and companies that disposed or arranged for the disposal of the hazardous substance found at a site. CERCLA also authorizes the Environmental Protection Agency (the "EPA") and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. In the course of its operations, Monterey has generated and will generate wastes that may fall within CERCLA's definition of "hazardous substances." Monterey may be responsible under CERCLA for all or part of the costs to clean up sites at which such wastes have been disposed. Certain properties owned or used by Monterey or its predecessors have been investigated under state and Federal Superfund statutes, and Monterey has been and could be named a potentially responsible party ("PRP") for the cleanup of some of these sites.

Monterey has been identified as one of over 250 PRPs at a Superfund site in Los Angeles County, California (the "OII Site"). The OII Site was operated by a third party as a waste disposal facility from 1948 until 1983. The EPA is requiring the PRPs to undertake remediation of the OII Site in several phases, which include site monitoring and leachate control, gas control and final remediation. In 1988 the EPA and a group of PRPs that includes Monterey entered into a consent decree covering the site monitoring and leachate control phases of remediation. Monterey was a member of the group Coalition Undertaking Remediation Efforts ("CURE") that was responsible for constructing and operating the leachate treatment plant. This phase is now complete and Monterey's share of costs with respect to this phase was $0.9 million. Another consent decree provides for the predesign, design and construction of a landfill gas treatment system to harness and market methane gas emissions. Monterey is a member of another group, "New CURE", that is responsible for the gas treatment system construction and operation and landfill cover. Currently, New CURE is in the design stage of the gas treatment system. Monterey's share of costs of this phase is expected to be $1.6 million and such costs have been provided for in Monterey's financial statements. Pursuant to consent decrees settling lawsuits against the municipalities and transporters involved with the OII site but not named by the EPA as PRPs, such parties are required to pay approximately $84 million, of which approximately $76 million will be credited against future expenses. The EPA and the PRPs are currently negotiating the final closure requirements. After taking into consideration the credits from the municipalities and transporters, Monterey estimates that its share of the final costs of the closure will be approximately $0.8 million, which amount has been provided for by Monterey. McFarland has been identified by the EPA as a PRP at the OII site. On July 23, 1997, McFarland paid $367,440 to settle its liability associated with the First Partial Consent Decree and a Unilateral Administrative Order issued to McFarland on March 7, 1997. McFarland's future liability at the site is estimated to be approximately $1.5 million. This liability has been provided for in McFarland's financial statements. Monterey has entered into a Joint Defense Agreement with the other PRPs to defend against a lawsuit filed in September 1994 by 95 homeowners alleging, among other things, nuisance, trespass, strict liability and infliction of emotional distress. A second lawsuit has been filed by 33 additional homeowners against Monterey and the other PRPs alleging similar damages and wrongful death. Monterey has entered into a Joint Defense Agreement with the other PRPs and is not able to estimate costs or potential liability.

In 1994 Monterey received a request from the EPA for information pursuant to Section 104(e) of CERCLA and a letter ordering Monterey and seven other PRPs to negotiate with the EPA regarding implementation of a remedial plan for a site located in Santa Fe Springs, California (the "Santa Fe Springs Site"). Monterey owned the property on which the Santa Fe Springs Site is located from 1921 to 1932. During that time the property was leased to another company and in 1932 the property was sold to that company. During the time the other company leased or owned the property and for a period thereafter, hazardous wastes were allegedly disposed at the Santa Fe Springs Site. Monterey filed its response to the Section 104(c) order setting forth its position and defenses based on the fact that the other company was the lessee and operator of the site during the time Monterey was the owner of the property. However, Monterey has also given its Notice of Intent to comply with the EPA's order to prepare a remediation design plan. In March 1997 the EPA issued an Amended Order for Remedial Design to the original eight PRPs plus an additional thirteen PRPs. The Amended Order directs the twenty-one PRPs to complete certain work required under the original order, plus additional remedial design and investigative work. The total cost to complete this work and to complete the final remedy (including ongoing operations and maintenance) is currently estimated to be $5 million. Past costs incurred by the EPA for this site for which the EPA is seeking reimbursement totals approximately $6 million. Monterey has provided $250,000 in its financial statements for its share of future costs at the Santa Fe Springs Site.

In 1995 Monterey and eleven other companies received notice that they have been identified as PRPs by the California Department of Toxic Substances Control (the "DTSC") as having generated and/or transported hazardous waste to the Environmental Protection Corporation ("EPC") Eastside Landfill during its fourteen-year operation from 1971 to 1985 (the "Eastside Site"). EPC has since liquidated all assets and placed the proceeds in trust (the "EPC Trust") for closure and post-closure activities. However, these

monies may not be sufficient to close the site. The PRPs have entered into an agreement with the DTSC to characterize the contamination at the site and prepare a focused remedial investigation and feasibility study. The DTSC has agreed to implement reasonable measures to bring new PRPs into the agreement. The cost of the remedial investigation and feasibility study for the Eastside Site is estimated to be $1.0 million, the cost of which will be shared by the PRPs and the EPC Trust. The ultimate costs of subsequent phases will not be known until the remedial investigation and feasibility study is completed and a remediation plan is accepted by the DTSC. Monterey currently estimates final remediation could cost $2 million to $6 million and believes the monies in the EPC Trust will be sufficient to fund the lower end of this range of costs. The DTSC recently designated 27 new PRPs for the Eastside Site. Monterey has provided $80,000 in its financial statements for its share of costs related to this site.

Monterey has agreed to indemnify and hold harmless Santa Fe from and against any costs incurred in the future relating to environmental liabilities of the Western Division assets (other than the assets retained by Santa Fe), including any costs or expenses incurred at any of the OII Site, the Santa Fe Springs Site and the Eastside Site, and any costs or liabilities that may arise in the future that are attributable to laws, rules or regulations in respect of any property or interest therein located in California and formerly owned or operated by the Western Division or its predecessors. Santa Fe has agreed to indemnify Monterey from and against any costs relating to environmental liabilities of any assets or operations of Santa Fe (whether or not currently owned or operated by Santa Fe) to the extent not attributable to the Western Division (other than the assets retained by Santa Fe).

Air Emissions. The operations of Monterey are subject to Federal, state and local regulations for the control of emissions from sources of air pollution. Monterey's properties have been and may in the future be the subject of administrative enforcement actions for failure to comply with air regulations or permits. The administrative actions are generally resolved by payment of a monetary penalty and correction of any identified deficiencies. Alternatively, regulatory agencies may require Monterey to forego construction or operation of certain air emissions sources, although Monterey believes that in the latter cases it would have enough permitted or permitable capacity to continue its operations without a material adverse effect on any particular producing field.

Other. Monterey is subject to the requirements of the Federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the Federal Superfund Amendment and Reauthorization Act and similar state statutes require Monterey to organize information about hazardous materials used or produced in its operations. Certain of this information must be provided to employees, Federal, state and local governmental authorities and local citizens.

Monterey's facilities in California are also subject to California Proposition 65, which was adopted in 1986 to address discharges and releases of, or exposures to, toxic chemicals in the environment. Proposition 65 makes it illegal to knowingly discharge a listed chemical if the chemical will pass (or probably will pass) into any source of drinking water. It also prohibits companies from knowingly and intentionally exposing any individual to such chemicals through ingestion, inhalation or other exposure pathways without first giving a clear and reasonable warning.

Employees. At August 31, 1997 Monterey had 350 employees, 188 of whom are covered by a collective bargaining agreement the current term of which expires on January 31, 1999. Monterey believes that its relations with its employees are satisfactory. Monterey's hourly employees are represented by the Oil, Chemical and Atomic Workers Union. For a description of the employment agreements between Monterey and certain of its key executive officers, see "Interests of Certain Persons in the Merger and Related Matters".

Legal Proceedings. Monterey and other related companies are defendants in several lawsuits and named parties in certain governmental proceedings arising in the ordinary course of business. While the outcome of lawsuits or other proceedings against Monterey cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the business, financial condition, liquidity or results of operations of Monterey. See "The Merger--Regulatory Matters; Certain Legal Matters" on page 19 and "Monterey Management's Discussion and Analysis of Financial Condition and Results of Operation--Other Matters" on page 52.

MONTEREY SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth, for the periods indicated, selected financial and operating data for Monterey. The selected balance sheet data as of December 31, 1996 and 1995 and the selected statement of operations and cash flow data for each of the three years in the period ended December 31, 1996 is derived from the financial statements of Monterey. The selected balance sheet data as of December 31, 1994 and the selected statement of operations and cash flow data for the year ended December 31, 1993 is derived from the financial statements of the Western Division. The selected balance sheet data as of December 31, 1993 and 1992 and the selected statement of operations and cash flow data for the year ended December 31, 1992 is derived from the unaudited accounting records of the Western Division. The selected balance sheet data as of June 30, 1997 and the selected statement of operations and cash flow data for the six-month periods ended June 30, 1997 and 1996 is derived from the unaudited financial statements of Monterey and

include, in the opinion of Monterey's management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial data for such periods. This selected financial and operating data should be read in conjunction with Monterey's financial statements and the notes thereto appearing elsewhere herein. This information should not be considered indicative of future operating results of Monterey. See also "Monterey Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Six Months Ended June 30,		Year Ended December 31, (1)				
	1997	1996	1996	1995	1994	1993	1992
	(in millions of dollars, except as noted)						
Statement of Operations Data							
Revenues	$159.5	$128.1	$292.9	$218.7	$191.9	$199.5	$226.4
Costs and Expenses:							
Production and operating	60.7	49.0	107.8	86.1	87.4	101.7	106.3
Cost of crude oil purchased	21.4	1.2	20.8	6.5	11.7	11.1	9.9
Exploration, including dry hole costs	0.8	0.9	1.7	2.4	1.4	1.7	2.7
Depletion, depreciation and amortization	19.0	18.1	37.4	32.4	32.0	41.2	44.0
Impairment of oil and gas properties	--	--	--	--	--	49.1	--
General and administrative	6.5	3.9	8.9	7.3	7.8	9.2	8.8
Taxes (other than income)	6.0	4.3	9.4	7.9	8.7	8.4	8.9
Restructuring charges	--	--	--	--	1.1	11.9	--
Loss (gain) on disposition of oil and gas properties	--	--	--	--	(0.3)	0.1	0.3
	114.4	77.4	186.0	142.6	149.8	234.4	180.9
Income (Loss) from Operations	45.1	50.7	106.9	76.1	42.1	(34.9)	45.5
Interest income	0.8	--	0.1	--	--	0.2	0.2
Interest expense	(9.6)	(12.9)	(25.0)	(25.8)	(26.4)	(27.2)	(27.6)
Interest capitalized	0.7	0.4	1.1	0.7	0.6	0.3	0.1
Other income (expense)	--	--	--	(0.6)	(0.1)	(0.4)	0.4
Income (Loss) Before Income Taxes and Extraordinary Items	37.0	38.2	83.1	50.4	16.2	(62.0)	18.6
Income taxes	(12.0)	(13.9)	(28.3)	(16.0)	(4.7)	26.9	(6.1)
Income (Loss) Before Extraordinary Items	25.0	24.3	54.8	34.4	11.5	(35.1)	12.5
Extraordinary items	--	--	(4.5)	--	--	--	--
Net Income (Loss)	$25.0	$24.3	$50.3	$34.4	$11.5	$(35.1)	$12.5

	Six Months Ended June 30,		Year Ended December 31, (1)				
	1997	1996	1996	1995	1994	1993	1992
	(in millions of dollars, except as noted)						
Statement of Operations Data							
Per Share Data (in dollars):							
Net income	0.46	--	--	--	--	--	--
Pro forma							
Income (loss) before extraordinary items	--	0.44	1.00	0.63	0.21	(0.64)	0.22
Net income (loss)	--	0.44	0.92	0.63	0.21	(0.64)	0.22
Number of shares used in computing per share amounts (in millions)	54.8	54.8	54.8	54.8	54.8	54.8	54.8
Statement of Cash Flows Data							
Net cash provided by operating activities	48.0	47.6	86.3	75.7	45.5	47.5	59.0
Net cash used in investing activities	40.9	29.4	54.6	54.2	18.2	18.2	17.4
Net cash used in financing activities	2.0	18.2	22.4	21.5	27.3	29.3	41.6
Balance Sheet Data (at period end)							
Properties and equipment, net	399.1	376.8	379.0	367.3	349.5	356.3	445.5
Total assets	467.5	410.0	447.2	391.3	376.1	387.3	476.2
Long-term debt	185.0	210.0	175.0	245.0	245.0	257.6	263.0
Shareholders' Equity and Division Equity	181.7	51.1	176.7	45.0	32.1	35.3	93.5
Selected Operating Data							
Average Daily Production							
Crude oil and liquids (MBbls/day)	50.2	45.1	46.8	41.8	41.3	42.5	42.0
Natural gas (MMcf/day)	3.1	3.6	3.5	5.3	3.8	6.4	7.1
Total production (MBOE/day)	50.7	50.8	47.4	42.7	41.9	43.6	43.2
Average Sales Prices							
Crude oil and liquids ($/Bbl)							
Unhedged	15.33	15.69	16.00	13.79	11.77	11.77	13.22
Hedged	15.33	15.39	15.82	13.79	11.77	11.77	13.78
Natural Gas ($/Mcf realized)	1.06	1.05	1.03	0.98	1.14	1.59	1.57
Proved Reserves at Year-End							
Crude oil, condensate and natural gas liquids (MMBbls)	n/a	n/a	216.4	199.5	191.2	183.6	190.3
Natural gas (Bcf)	n/a	n/a	12.2	12.4	13.4	11.8	18.8
Proved reserves (MMBOE)	n/a	n/a	218.4	201.6	193.5	185.6	193.4

Proved developed reserves (MMBOE)	n/a	n/a	172.6	158.6	141.8	142.3	157.6
Present Value of Proved Reserves at Year-End After income taxes	n/a	n/a	680.7	426.4	366.1	143.0	275.4
Production Costs per BOE (lifting costs) (including related production, severance and ad valorem taxes) (in dollars)	7.15	6.33	6.64	5.98	6.19	6.85	7.23

(1) Reflects the operations of the Western Division for the years 1992 through 1995. The year 1996 reflects the operations of the Western Division for January through October and Monterey for November and December.

(2) Common shares outstanding at November 19, 1996, the closing date of Monterey's initial public offering, have been included on a pro forma basis in the calculation of net income per share for the years ended December 31, 1992 through 1996 and the six months ended June 30, 1996 as if such shares were outstanding during such periods.

"n/a" denotes "not available".

Capitalization of Monterey

The following table sets forth the historical capitalization of Monterey as of June 30, 1997. This table should be read in conjunction with the Financial Statements of Monterey and the notes thereto appearing elsewhere herein.

	As of June 30, 1997 (in millions of dollars)
Cash and Cash Equivalents	$ 14.4
Long-Term Debt	
Monterey Senior Notes	$175.0
Credit Facility	10.0
Shareholders' Equity	181.7
Total Capitalization	$366.7

BUSINESS OF TEXACO

Operating in more than 150 countries, Texaco and its affiliates find and produce crude oil and natural gas, manufacture and market high quality fuel and lubricant products, operate transportation, trading and distribution facilities and produce alternate forms of energy for power and manufacturing. Texaco finds and produces oil and natural gas from a global portfolio of new and mature fields. Newer prospects in the United Kingdom North Sea, China, West Africa and Latin America complement established operations in the United States, Indonesia and the Middle East and exploration activities in the Asia-Pacific region and deepwater Gulf of Mexico. At a five year average of 112%, Texaco's worldwide reserve replacement places it among the leaders in the industry. Texaco and its affiliates own or have interests in 25 refineries in the U.S. and around the world. Equity crude processing capacity is 1.5 million barrels a day. With its affiliates, Texaco markets automotive fuels through some 22,000 service stations worldwide, and through its global businesses, its sells lubricants, coolants and marine and aviation fuel. Texaco's principal executive offices are located at 2000 Westchester Avenue, White Plains, New York 10650.

MONTEREY MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The discussion presented herein relates to the operations of the Western Division for the years ended December 31, 1995 and prior. The discussion with respect to 1996 relates to the operations of the Western Division for January through October and Monterey for November and December. The discussion with respect to 1997 relates to the operations of Monterey.

As an independent oil and gas producer, Monterey's results of operations are dependent upon the difference between the prices received for oil and gas and the costs of finding and producing such resources. Monterey produces most of its oil and gas from long-lived fields in the San Joaquin Valley of California utilizing various EOR methods. The market price of heavy (i.e., low gravity, high viscosity) and sour (i.e., high sulfur content) crude oils produced in these fields is lower than sweeter, light (i.e., low sulfur and low viscosity) crude oils, reflecting higher transportation and refining costs. In addition, the lifting costs of heavy crude oils are generally higher than the lifting costs of light crude oils. As a result, even relatively modest changes in crude oil prices may significantly affect Monterey's revenues, results of operations, cash flows and proved reserves. In addition, prolonged periods of high or low oil prices may have a material effect on Monterey's financial condition and results of operations.

The average realized sales price of Monterey's crude oil and liquids for the first half of 1997 was $15.33 per barrel, or approximately 78%

of the average posted price of $19.58 per barrel for West Texas Intermediate ("WTI") crude oil (an industry posted price generally indicative of prices for sweeter light crude oil).

Crude oil prices are subject to significant changes in response to fluctuations in the domestic and world supply and demand and other market conditions, as well as the world political situation as it relates to OPEC, the Middle East and various producing countries. Since the beginning of 1994, the average sales price (unhedged) received by Monterey ranged from a low of $8.80 per barrel for the first quarter of 1994 to a high of $17.29 per barrel in the fourth quarter of 1996. Based on operating results for the first half of 1997, Monterey estimates that on an annualized basis a $1.00 per barrel increase or decrease in its average crude oil sales price would result in a corresponding $18.2 million change in income from operations and a $11.0 million change in cash flow from operating activities. The foregoing estimates do not give effect to changes in any other factors, such as the effect of depreciation and depletion, that would result from a change in oil prices.

The price of natural gas fluctuates due to supply and demand, which may be affected by weather conditions, the level of natural gas in storage and other economic factors. Increases in the price of natural gas adversely impact Monterey's results of operations because the natural gas consumed in Monterey's EOR operations exceeds the amount of natural gas produced by Monterey. Based on operating results for the first half of 1997, Monterey estimates that on an annualized basis a $0.10 per Mcf increase (or decrease) in the average domestic natural gas sales price would result in a $1.8 million decrease (or increase) in income from operations and a $1.0 million decrease (or increase) in cash flow from operating activities. The foregoing estimates do not give effect to changes in any other factors, such as depletion and depreciation, that would result from a change in natural gas prices.

In February 1996 the Bureau of Land Management ("BLM") of the United States Department of the Interior (which oversees Monterey's leases of Federal lands) agreed, effective as of June 1, 1996, to reduce the royalties payable on any Federal lease that produces crude oil with a weighted average API gravity of less than 20 degrees. The reduced royalty rates are based upon the weighted average API gravity of the heavy oil produced from the subject Federal leases and are as low as 3.9%, compared to 12.5% before the reduction. The reduced royalty rates continue in effect for 12-month periods, after which the operator can establish a new reduced rate for continued heavy oil production by submitting an application. As a result of this program, Monterey's royalty rate on its Federal leases has been reduced from 12.5% to an average of 4.8%, resulting in a net increase in the production attributable to Monterey's net revenue interests in such leases of approximately 1.6 MBbls per day. During the period that such royalty reduction is in effect, Monterey (and other working interests owners, if any) will bear all of the thermal EOR costs to produce the heavy oil from such properties. The royalty reduction will be terminated upon the first to occur of (i) the determination by the BLM that the WTI average oil price (as adjusted for inflation) has remained above $24 per barrel for six consecutive months and (ii) such time after September 10, 1999, as the Secretary of the Interior determines that the heavy oil royalty rate reduction has not produced the intended results (i.e., to reduce the loss of otherwise recoverable reserves).

Monterey's 1996 financial statements include the impact of oil and gas hedging losses which were allocated by Santa Fe. Santa Fe from time to time enters into such transactions in order to reduce exposure to fluctuations in market prices of oil and natural gas. Oil hedging losses were allocated to Monterey based upon relative production volumes and were recognized as a reduction of oil revenues in the period in which the hedged production was sold. Such amounts totaled $3.1 million in 1996. Currently Monterey has no oil hedges in place and, going forward, Monterey does not expect to hedge a substantial portion of its oil production.

Additionally, during the first six months of 1996, Santa Fe hedged 20 MMcf per day of the natural gas purchased for use in Monterey's steam generation operations. Such hedges, which terminated at the end of the second quarter, resulted in a $3.2 million increase in Monterey's production and operating costs. While Monterey currently has no natural gas hedges in place, Monterey's management may determine that such arrangements are appropriate in the future in order to reduce Monterey's exposure to increase in gas prices.

Results of Operations

The following table reflects certain components of Monterey's revenues (expressed in millions of dollars) and expenses (expressed in dollars per BOE) for the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,		
	1997	1996	1996	1995	1994
Revenues:					
Crude oil and liquids:					
Average realized sales prices ($/Bbl)					
Unhedged	15.33	15.69	16.00	13.79	11.77
Hedged	15.33	15.39	15.82	13.79	11.77
Sales volumes (MBbls/d)	50.2	45.1	46.8	41.8	41.3
Revenues ($ Millions)					
Sales	139.4	128.7	274.0	210.2	177.5

Hedging	--	(2.5)	(3.1)	--	--
Net profits payments	(0.8)	(0.5)	(1.0)	(0.8)	(0.4)
Total	138.6	125.7	269.9	209.4	177.1
Natural Gas:					
Average realized sales prices ($/Mcf)	1.06	1.05	1.03	0.98	1.14
Sales volumes (MMcf/d)	3.1	3.6	3.5	5.3	3.8
Revenues ($ Millions)	0.6	0.7	1.3	1.9	1.6
Expenses Per BOE: ($)					
Production and operating expenses:					
Steam generation	3.00	2.40 (2)	2.69 (1)	1.98	2.16
Lease operating	3.61	3.50	3.53	3.56	3.55
Total	6.61	5.90 (2)	6.22 (1)	5.54	5.71
Exploration, including dry holes	0.08	0.11	0.10	0.15	0.09
Depletion, depreciation and amortization	2.07	2.18	2.16	2.08	2.09
General and administrative	0.71	0.47	0.44	0.47	0.51
Taxes (other than income)	0.65	0.52	0.54	0.51	0.56
Interest, net	0.97	1.50	1.38	1.61	1.68

(1) Includes $0.18 per BOE loss on hedging, see "--General." The hedging transactions which generated these losses expired on June 30, 1996. Excluding such hedging losses, historical steam generation costs would have been $2.51 per BOE and historical total production costs would have been $6.04 per BOE.

(2) Includes $0.39 per BOE loss on hedging, see "--General." Excluding such hedging losses, historical steam generation costs would have been $2.01 per BOE and historical production costs would have been $5.51 per BOE.

Six Months Ended June 30, 1997 Compared to Six Months Ended June 30, 1996. Revenues of $159.5 million for the first six months of 1997 were $31.4 million, or 25%, greater than the $128.1 million reported for the first half of 1996. The variance primarily reflects greater sales volumes ($13.6 million) and the sales of crude oil purchased ($18.7 million) partially offset by a decrease in the realized price of crude oil ($0.5 million).

Costs and expenses of $114.4 million for the first six months of 1997 were $37.0 million, or 48%, higher than the $77.4 million reported in the first half of 1996. This variance primarily reflects an increase in the cost of crude oil purchased ($20.2 million) due to increased marketing activity. In addition, production and operating costs were higher due to greater production volumes and increased steam fuel costs ($11.7 million). General and administrative costs included higher personnel costs due to Monterey operating as a separate, unaffiliated entity and non-recurring transition costs ($2.6 million). Taxes other than income taxes increased due to greater production volumes and higher ad valorem taxes ($1.7 million).

Interest expense of $9.6 million for the first six months of 1997 was $3.3 million, or 26%, lower than the $12.9 million reported in the first half of 1996. This variance relates to the notes retired in November 1996.

Income taxes for the first six months of 1997 were $12.0 million, down 14% from the $13.9 million reported in the same period in 1996. Monterey's effective tax rate was 32.4% for the first half of 1996 as compared to 36.4% for the first half of 1996, reflecting an increase in the amount of EOR credits available to Monterey relative to pre-tax income.

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995. Revenues for 1996 of $293 million were 34% higher than the $219 million reported for 1995. The variance primarily reflects greater sales volumes ($29 million) and higher sales prices ($31 million). An increase in the sales of crude oil purchased ($14 million) accounted for most of the remaining difference and represents purchases of higher gravity third-party crude blended with Monterey's heavy production to enhance the available transportation and marketing opportunities. Such activity varies directly with market conditions.

Costs and expenses totaled $186 million for the year and were 30% higher than the $143 million reported for 1995. Production and operating costs were higher due to greater production volumes and included fuel cost increases ($13 million) and allocated steam fuel hedging losses ($3 million). The cost of third-party crude oil purchases increased due to greater marketing activity ($14 million) and general and administrative expenses include a non-recurring charge of $1.3 million for employee relocation and other transition costs directly related to the Monterey IPO.

Income taxes for the year were $28 million, up 75% over the $16 million reported in 1995. In addition to a greater level of pre-tax income Monterey's effective tax rate was 34% in 1996 compared with 32% in 1995, reflecting primarily the amount of EOR credits available to Monterey relative to pre-tax income.

Extraordinary items in 1996 consisted of the after-tax costs of early extinguishment of debt assumed in connection with the Monterey IPO.

Year Ended December 31, 1995 Compared to Year Ended December 31, 1994. Revenues for 1995 of $219 million were 14% higher than the $192 million reported in 1994. The increase primarily reflects the effects of increased sales prices ($30 million) and increased sales volumes ($2 million) partially offset by decreased sales of crude oil purchased ($5 million).

Costs and expenses totaled $143 million in 1995, a decrease of 5% compared to $150 million in 1994. Costs of crude oil purchased decreased $5 million due to less marketing activity, and exploration costs for 1995

include $1 million related to the drilling of two dry exploratory wells. Costs and expenses for 1994 included $1 million in restructuring costs related to Santa Fe's 1993 corporate restructuring program. Although other 1995 costs showed no significant change from the 1994 levels, steam generation costs and general and administrative costs declined $0.18 per BOE and $0.11 per BOE, respectively.

Income taxes in 1995 were $16 million, an increase of 220% compared to $5 million in 1994 and primarily reflect higher pre-tax income. Monterey's effective tax rate in 1995 of 32% was up from 29% in 1994, primarily reflecting the amount of EOR credits generated relative to the level of pre-tax income.

Year Ended December 31, 1994 Compared to Year Ended December 31, 1993. Revenues for 1994 of $192 million were 4% lower than the $200 million reported in 1993. Revenues for 1993 included crude oil and liquids revenues of $13 million (2.5 MBbls per day) and natural gas revenues of $2 million (2.3 MMcf per day) attributable to certain producing properties which were sold to Vintage Petroleum, Inc. ("Vintage") in the fourth quarter of 1993. Crude oil and liquids revenues from other properties increased $6 million primarily reflecting the effects of increased sales volumes.

Costs and expenses totaled $150 million in 1994, a decrease of 36% compared to $234 million in 1993. Costs and expenses in 1993 included impairments of oil and gas properties of $49 million with regard to two properties in the LA Basin and restructuring charges of $11.9 million. The restructuring charges were incurred in the fourth quarter of 1993 as a result of the adoption by Santa Fe of a corporate restructuring program which included, among other things, (i) the concentration of capital spending in Santa Fe's core operating areas (one of which is the San Joaquin Valley of California); (ii) the disposition of non-core assets; and (iii) an evaluation of Santa Fe's cost structures. As a result of the program, certain of Monterey's producing properties were sold to Vintage and Monterey's salaried work force was reduced. In implementing the corporate restructuring program, Monterey recorded restructuring charges of $11.9 million in 1993, comprised of losses on property dispositions of $11.3 million and accruals for certain personnel benefits and related costs of $0.6 million. Also, costs and expenses in 1993 included $9 million of production and operating costs, $4 million in DD&A and $0.4 million of taxes (other than income) related to certain producing properties sold to Vintage in the fourth quarter of 1993. The remainder of the decrease in DD&A was primarily attributable to the effect of the impairments taken in 1993. General and administrative expense was lower in 1994, primarily reflecting the effect of the 1993 corporate restructuring program.

Income taxes in 1994 were $5 million, compared to a $27 million benefit in 1993 attributable to the net loss of $62 million incurred in that year. Monterey's effective tax rate in 1994 was 29%.

Liquidity and Capital Resources

Monterey's cash flow from operating activities is a function of the volumes of oil and gas produced from Monterey's properties and the sales prices received therefor. Since crude oil and natural gas are depleting assets, unless Monterey replaces the oil and gas produced from its properties, Monterey's assets will be depleted over time and its ability to incur debt at constant or declining prices will be reduced. Monterey increased its proved reserves (net of production and sales) by approximately 17% from December 31, 1991 to December 31, 1996; however, no assurances can be given that similar increases will occur in the future. Historically, Monterey has funded development and exploration expenditures and working capital requirements primarily from cash provided by operating activities; however, the future levels of operating cash flows, which are significantly affected by oil and gas prices, may limit the cash available for future exploration, development and acquisition activities. Net cash provided by operating activities and net proceeds from sales of properties totaled $48.0 million in the first half of 1997; net cash used for capital expenditures and producing property acquisitions in such period totaled $40.9 million. Monterey intends to continue to meet its short-term (through 1997) and long-term (the foreseeable future after 1997) liquidity needs with cash provided by operating activities, supplemented from time to time with borrowings under the Monterey Credit Facility and, if appropriate, debt and equity financing.

Monterey expects to increase its capital expenditures (including the McFarland and other acquisitions) from an average of $35.8 million per year over the five-year period ended December 31, 1996 to approximately $200 million in 1997. However, the actual amount expended by Monterey in 1997 will be based upon numerous factors, the majority of which are outside its control, including, without limitation, prevailing oil and natural gas prices and the outlook therefor and the availability of funds. Monterey intends to fund such future capital expenditures with cash provided by operating activities and borrowings under the New Facility (as defined below).

In November 1996 Monterey issued the Monterey Senior Notes which were exchanged for $175.0 million of Senior G Notes previously issued by Santa Fe. The Monterey Senior Notes bear interest at 10.61% per annum and mature $25 million per year in each of the years 1999 through 2005.

Effective November 13, 1996 Monterey entered into a credit facility which matures November 13, 2000 (the "First Facility"). The First Facility permits Monterey to obtain revolving credit loans and issue letters of credit in an aggregate amount of up to $75.0 million, with the aggregate amount of letters of credit outstanding at any time limited to $15.0 million. Borrowings are unsecured and interest rates are tied to the bank's prime rate or eurodollar rate, at the option of Monterey. Effective July 22, 1997 Monterey terminated the First Facility and entered into a new credit facility which matures in July, 2002 (the "New Facility"). The New Facility permits

Monterey to obtain revolving credit loans and issue letters of credit in an aggregate amount of up to $200 million, with the aggregate amount of letters of credit outstanding at one time limited to $50 million. Borrowings are unsecured and interest rates are tied to the bank's prime rate or eurodollar rate, at the option of Monterey. On July 22, 1997 Monterey drew $100 million under the New Facility to fund the McFarland acquisition. On July 31, 1997, interest accrued on the New Facility at 6.375% subject to adjustment under the interest rate swap described below.

On June 17, 1997 Monterey entered into an interest rate swap with a bank with a notional principal amount of $100 million. Under the terms of the swap, which is effective for the period July 21, 1997 through July 21, 2003, during any quarterly period at the beginning of which a floating rate specified in the agreement is less than 6.74%, Monterey must pay the bank interest for such quarterly period on the principal amount at the difference between the rates. Should the floating rate be in excess of 6.74%, the bank must pay Monterey interest for such quarterly period on the principal amount at the difference between the rates.

The New Facility and Senior Notes include covenants that restrict Monterey's ability to take certain actions, including the ability to incur additional indebtedness and to pay dividends on capital stock. To the extent that Monterey is restricted from incurring additional indebtedness under the Senior Notes or the New Facility, the cash available for use in its operations may be reduced. Under the most restrictive of these covenants on a pro forma basis at June 30, 1997, giving effect to the McFarland acquisition, Monterey could incur up to $81.5 million of additional indebtedness, or incur a lesser amount and pay dividends of up to $66.7 million.

At June 30, 1997, Monterey had $10.0 million in loans and $2.4 million of letters of credit outstanding under the First Facility.

Dividends

If the Merger is not consummated, Monterey currently intends to pay to its stockholders a quarterly dividend of $0.15 per share of common stock ($0.60 annually). Monterey declared a dividend of $0.15 per outstanding common share, which was paid July 22, 1997 to the stockholders of record as of June 30, 1997. The determination of the amount of future cash dividends, if any, to be declared and paid will depend upon declaration by Monterey's Board and upon Monterey's financial condition, earnings and funds from operations, the level of its capital and exploration expenditures, dividend restrictions contained in the New Facility and the Senior Notes as described in "--Liquidity and Capital Resources," future business prospects and such other matters as Monterey's directors deem relevant.

Environmental Matters

Almost all phases of Monterey's oil and gas operations are subject to stringent environmental regulation by governmental authorities. Such regulation has increased the costs of planning, designing, drilling, installing, operating and abandoning oil and gas wells and other facilities. Monterey has expended significant financial and managerial resources to comply with such regulations. These efforts include both Monterey employees responsible for environmental compliance and paid consultants who have evaluated known sites for which Monterey may face environmental liability and who monitor Monterey's properties and waste handling and disposal practices. All oilfield wastes are disposed of at facilities authorized to accept such wastes. Although Monterey believes its operations and facilities are in general compliance with applicable environmental regulations, risks of substantial costs and liabilities are inherent in oil and gas operations. It is possible that other developments, such as increasingly strict environmental laws, regulations and enforcement policies or claims for damages to property, employees, other persons and the environment resulting from Monterey's operations, could result in significant costs and liabilities in the future. As it has done in the past, Monterey intends to fund its costs of environmental compliance from operating cash flows.

Monterey has been named as a PRP with respect to certain Superfund sites. See "Business of Monterey--Other Business Matters--Environmental Regulation--Superfund."

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") recently issued Statement of Financial Accounting Standards ("FAS") No. 128, "Earnings per Share", which establishes new guidelines for calculating and reporting earnings per share in financial statements for periods ending after December 15, 1997. This rule is not expected to have a material effect on Monterey's reported earnings per share.

The FASB issued FAS No. 130, "Reporting Comprehensive Income," during June 1997. This statement requires disclosure of changes in equity from nonowner sources in a new primary financial statement and as a separate caption within the stockholders' equity section of the balance sheet. It is effective for periods beginning after December 15, 1997.

Also during June 1997, the FASB issued FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". This Statement does not affect Monterey since it operates in a single segment. It is effective for periods beginning after December 15, 1997.

Spin Off Completed

As of June 30, 1997, Santa Fe owned approximately 83% of the outstanding shares of Monterey's common stock. Santa Fe's spin off of its interest in Monterey was completed on July 25, 1997 with a tax-free distribution of its Monterey shares to Santa Fe shareholders.

Pursuant to the terms of a letter agreement dated as of June 13, 1996, a fee of $3.3 million was paid one half to Chase Securities Inc. and one half to Petrie Parkman & Co., Inc. In addition, a fee of $200,000 was paid on July 25, 1997 to GKH Partners, L.P. One of Monterey's directors is associated with GKH Partners.

McFarland Acquisition

In July, 1997, Monterey completed its acquisition of McFarland. Monterey Acquisition Corporation, a wholly owned subsidiary of Monterey, merged with and into McFarland, and as a consequence, McFarland is now a wholly owned subsidiary of Monterey. Monterey paid $18.55 per share for each of the 5,727,422 shares outstanding. McFarland's principal producing properties are located in the Midway Sunset Field adjacent to properties owned by Monterey.

Other Matters

On July 16, 1997 Monterey was served with a petition (the "Prudential Complaint") filed by The Prudential Insurance Company of American ("Prudential") alleging breach of fiduciary duty, breach of contract, fraud, constructive fraud, and negligent misrepresentation. The Prudential Complaint relates to the alleged conduct of Monterey's predecessor in interest, Santa Fe, as the General Partner of the South Belridge Limited Partnership (the "Partnership"). Prudential is the sole limited partner in the Partnership. Prudential alleges that Santa Fe failed to develop the Partnership's property in accordance with the Partnership Agreement. In November, 1996, Santa Fe's interest in the Partnership was assigned to Monterey. Monterey is in the process of investigating the allegations made by Prudential in the Prudential Complaint. Based on the information currently available to it, Monterey believes that it has valid defenses to Prudential's claims and intends to vigorously defend this lawsuit.

Intercompany Agreements

Spin Off Tax Indemnity Agreement. To protect Santa Fe from Federal and state income taxes, penalties, interest and additions to tax that would be incurred by it if the Spin Off by Santa Fe were determined to be a taxable event, Monterey and Santa Fe have entered into an agreement under which Monterey has agreed to indemnify Santa Fe with respect to tax liabilities resulting primarily from actions taken by Monterey at any time during the "Restricted Period" (a two-year period that commenced on July 25, 1997). Monterey has also agreed that, unless it obtains an opinion of counsel or a supplemental ruling from the Internal Revenue Service that such action will not adversely affect the qualification of the Spin Off as tax-free, Monterey will not merge or consolidate with another corporation, liquidate or partially liquidate, sell or transfer all or substantially all of its assets or redeem or otherwise repurchase any of its stock or issue additional shares of Monterey's capital stock during such Restricted Period. Texaco's obligation to consummate the Merger is conditioned upon Monterey receiving such an opinion from Andrews & Kurth. Monterey's obligations under this agreement could possibly deter offers or other efforts by third parties to obtain control of Monterey during such Restricted Period, which could deprive Monterey's stockholders of opportunities to sell their shares of Monterey Common Stock at prices higher than prevailing market prices.

Monterey has retained the right to contest, at its expense, any determination by taxing authorities that the Spin Off has failed to qualify as tax-free by reason of an action by Monterey; provided, however, that if Santa Fe reasonably perceives, either at the commencement or during the course of any proceeding challenging the tax-free nature of the Spin Off, that Monterey could not pay the indemnified amounts if the taxing authorities were successful and Monterey fails to furnish a guarantee or performance bond satisfactory to Santa Fe in an amount equal to the indemnified liability being asserted by the taxing authority, Santa Fe may assume the defense of any such challenge, at Monterey's expense, and may compromise, concede, or settle the taxing authorities' claim. Santa Fe's assumption of the conduct of such defense would not relieve Monterey of its financial responsibility to Santa Fe under this agreement.

Monterey believes that if Monterey is required to make payments pursuant to such agreement, the amount that Monterey would pay to Santa Fe would have a material adverse effect on Monterey's financial condition. The actions for which Monterey is required to indemnify Santa Fe pursuant to this agreement are within Monterey's control, and Monterey has no intention of taking any actions during the Restricted Period that would have such an effect.

The Spin Off Tax Indemnity Agreement also contains provisions covering certain other tax matters between Santa Fe and Monterey. Under the tax sharing agreements and arrangements between Santa Fe and Santa Fe Pacific Corporation ("SFP"), the former parent company of Santa Fe, Santa Fe and its subsidiaries receive benefits from and are responsible for liabilities directly attributable to audit adjustments for California franchise taxes with respect to all California properties or operations owned or conducted by Santa Fe and its subsidiaries prior to the spin off of Santa Fe by SFP. Monterey now owns substantially all of the California properties and operations that would relate to such audit matters. Accordingly, Monterey will receive the benefits and be responsible for the obligations attributable to California franchise tax liabilities under Santa Fe's agreements with SFP for any of the tax years ending on or after December 31, 1984 (the years for which the audits have not been conducted by California). Santa Fe prepares and files all consolidated federal, combined state and local income and franchise tax returns required to be filed while Monterey is a member of Santa Fe's affiliated group and Monterey will not be compensated for the carryback after Spin Off to Santa Fe's affiliated group of any Monterey tax items realized after Monterey ceases to be a member of Santa Fe's affiliated group. Monterey will not be compensated for such carryback both because it is anticipated that Monterey will make the necessary election to forego any such carryback and

because management of both Santa Fe and Monterey desire to minimize, to the extent possible, continuing relationships and obligations between the two companies.

Tax Allocation Agreement. Monterey is included in the consolidated federal income tax return filed by Santa Fe as the common parent for itself and its subsidiaries through the effective date of the Spin Off. Consistent therewith and pursuant to a tax allocation agreement (the "Tax Allocation Agreement"), Monterey has agreed to pay to Santa Fe an amount approximating the federal tax liability and state and local tax liability it would have paid if it and its subsidiaries were a separate consolidated group. This amount will be payable regardless of whether the Santa Fe consolidated group, as a whole, has any current federal, state or local tax liability. In determining amounts payable to Santa Fe in accordance with the foregoing formula, Monterey and its subsidiaries may take into account only their losses and credits (including carryforwards) to reduce amounts they would owe if they were a separate consolidated group. Such amounts must first be used by the Santa Fe consolidated group. Any of Monterey's carryforwards not used by the Santa Fe consolidated group will be available for use by Monterey when it leaves the Santa Fe consolidated group. When Monterey or its subsidiaries cease to be members of the Santa Fe consolidated group, the Tax Allocation Agreement will continue to apply to prior periods, and additional payments to or receipts from Santa Fe could be required if there is an audit or similar adjustment subsequently made that impacts the computation of amounts to be paid or received from Santa Fe as described above. In addition, when Monterey and its subsidiaries cease to be members of the Santa Fe consolidated group, they will not be entitled to any compensation or reimbursement with respect to any tax refund, benefit or other similar item realized by the Santa Fe group after Monterey leaves the Santa Fe group or with respect to any carryforwards not used by Monterey prior to Monterey leaving the Santa Fe group.

MANAGEMENT OF MONTEREY

Directors

Name, Age and Address	Principal Occupation; Five-Year Employment History; Other Directorships
Michael A. Morphy, 65..... 526 Las Fuentes Drive Santa Barbara, CA 93108	Retired Chairman and Chief Executive Officer of California Portland Cement Company. Mr. Morphy is also a member of the Board of Cyprus Amax Minerals Co. and Santa Fe Pacific Pipelines, Inc. and was a director of Santa Fe from 1990 to 1996.
Robert F. Vagt, 50..... Davidson College 100 North Main Street Chambers Building Davidson, NC 28036	President, Davidson College since July 1, 1997. Mr. Vagt was President and Chief Operating Officer of Seagull Energy Corporation from October 1996 until June 30, 1997. Prior to that, Mr. Vagt was Chairman of the Board, President, Chief Executive Officer and director of Global National Resources, Inc. (oil and gas exploration and production) from May 1992 to October 1996; President and Chief Operating Officer of Adobe Resources Corporation ("Adobe")(oil and gas exploration and production) from November 1990 to May 1992; Executive Vice President of Adobe from August 1987 to October 1990; and Senior Vice President of Adobe from October 1985 to August 1987. Mr. Vagt was a director of Santa Fe from 1992 to 1996.
James A. Middleton, 61..... 574 Chapela Drive Pacific Palisades, CA 90279	Chairman and Chief Executive Officer of Crown Energy Company since 1996. Upon his retirement from the Atlantic Richfield Company ("ARCO") in December, 1994 Mr. Middleton was appointed Executive Vice President, Emeritus of ARCO. From 1990 until his retirement Mr. Middleton served as Executive Vice President of ARCO. Mr. Middleton served on the Board of Directors of ARCO and the ARCO Foundation from 1987 until 1994. Mr. Middleton is currently a Director of Texas Utilities Company (since 1989) and ARCO Chemical Company (since 1989).
Craig A. Huff, 33..... Ziff Brothers Investments 153 East 53rd Street New York, NY 10022	Principal in Ziff Brothers Investment since July of 1993. Prior to joining Ziff Brothers, Mr. Huff received a degree from the Harvard Business School in 1993. Ziff Brothers currently holds approximately 3.3% of Monterey's outstanding Common Stock. Mr. Huff was a director of Santa Fe in 1996.
Robert J. Wasielewski, 34..... GKH Partners, L.P. 200 West Madison Street Chicago, IL 60606	Employed by GKH Partners, L.P. ("GKH") since October 1991. GKH is an investment partnership whose general partners include entities controlled by Jay and Tom Pritzker, Dan W. Lufkin and Melvyn N. Klein. From July 1996 to the present Mr. Wasielewski has held the position of Managing Director of GKH. He was employed by Citicorp in the Leveraged Capital Division from September 1987 to October 1991, serving as Assistant Vice President from December 1990 until joining GKH. Mr. Wasielewski serves as a director and officer of various privately-held affiliates of GKH. GKH through an affiliate, HC Associates, a Delaware general partnership, currently holds approximately 4.2% of Monterey's outstanding common stock.
James L. Payne, 60..... Santa Fe Energy Resources 1616 South Voss Houston, TX 77057	Chairman of the Board, President and Chief Executive Officer of Santa Fe since June 1990, Mr. Payne was President of Santa Fe Energy Corporation, a predecessor in interest of Santa Fe, from January 1986 to January 1990 when he became President of Santa Fe. Mr. Payne is also a director of Pool Energy Services Co., an oil field services corporation.
R. Graham Whaling, 43..... 5201 Truxtun Avenue Bakersfield, CA 93309	Chairman of the Board and Chief Executive Officer of Monterey. Mr. Whaling was Senior Vice President and Chief Financial Officer of Santa Fe from January 1995 to November 1996. Prior to that time he

was with CS First Boston, an investment banking firm, as Vice President, Corporate Finance from 1991 to 1994 and Director, Corporate Finance from 1994 to 1995. Prior to joining First Boston, Mr. Whaling served as a petroleum engineer for Sun Oil Corporation and petroleum reservoir consulting engineer for Ryder Scott. Mr. Whaling has been a director of Monterey since September 1996.

Executive Officers

Name, Age and Address	Principal Occupation; Five-Year Employment History; Other Directorships
R. Graham Whaling, 43..... 5201 Truxtun Avenue Bakersfield, CA 93309	Chairman of the Board and Chief Executive Officer of Monterey. Mr. Whaling was Senior Vice President and Chief Financial Officer of Santa Fe from January 1995 to November 1996. Prior to that time he was with CS First Boston, an investment banking firm, as Vice President, Corporate Finance from 1991 to 1994 and Director, Corporate Finance from 1994 to 1995. Prior to joining First Boston, Mr. Whaling served as a petroleum engineer for Sun Oil Corporation and petroleum reservoir consulting engineer for Ryder Scott. Mr. Whaling has been a director of Monterey since September 1996.
David B. Kilpatrick, 47..... 5201 Truxtun Avenue Bakersfield, CA 93309	President and Chief Operating Officer since November 1996. Mr. Kilpatrick was Division Manager -- Production for Santa Fe's Western Division from January 1990 until November 1996.
Gerald R. Carman, 32..... 5201 Truxtun Avenue Bakersfield, CA 93309	Vice President, Chief Financial Officer and Treasurer. Mr. Carman was Treasurer of Santa Fe from January 1995 until December 1996. Prior to 1995, Mr. Carman was Director of Corporate Planning and Manager of Tax Planning for Santa Fe.
Terry L. Anderson, 50..... 5201 Truxtun Avenue Bakersfield, CA 93309	Vice President -- Law, General Counsel and Secretary since November 1996. Mr. Anderson was Manager -- Business Development of Santa Fe from December 1994 until November 1996. Prior to that time and beginning in 1988, Mr. Anderson was Senior Counsel of Santa Fe.
Jeffrey B. Williams, 52..... 5201 Truxtun Avenue Bakersfield, CA 93309	Vice President -- Development since November 1996. Mr. Williams was Corporate Production Manager of Santa Fe from July 1996 until November 1996. Prior to that time, Mr. Williams was employed by Santa Fe as Regional, Corporate or Divisional Production Manager, a position he assumed in 1983.
C. Ed. Hall, 55..... 5201 Truxtun Avenue Bakersfield, CA 93309	Vice President -- Public Affairs since November 1996. Mr. Hall was Vice President -- Public Affairs of Santa Fe from March 1991 until November 1996.

All executive officers hold office at the pleasure of the board of directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

To the best of Monterey's knowledge, the following persons are the only persons who are beneficial owners of more than five percent of Monterey's Common Stock based on the number of shares outstanding on August 31, 1997:

Name and Address	Number of Shares	Percent of Class
FMR Corp. (1)..... 82 Devonshire Street Boston, Massachusetts 02109	3,222,000	5.9%
Neuberger Berman..... 605 Third Avenue New York, New York 10158	2,933,000	5.4%

(1) Fidelity Management & Research Company ("Fidelity"), 82 Devonshire Street, Boston, Massachusetts 02109, a wholly owned subsidiary of FMR Corp. and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 3,222,000 shares or 5.9% of the Common Stock outstanding of Monterey as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the number of shares of Monterey Common Stock beneficially owned as a of August 31, 1997 by each of the directors, the executive officers, and all directors and executive officers as a group. Unless otherwise noted, each of the named persons and members of the group has sole voting and investment power with respect to the shares shown.

Name of Beneficial Owner	Shares of Monterey Common Stock (1)	Percent of Monterey Common Stock
R. Graham Whaling(2)	428,614	0.8%
David B. Kilpatrick(3)	161,429	0.3%
Gerald R. Carman(4)	60,484	0.1%
Terry L. Anderson(5)	68,990	0.1%
Jeffrey B. Williams(6)	95,343	0.2%
C. Ed Hall(7)	81,247	0.1%
Craig A. Huff(8)	1,852,067	3.4%
James A. Middleton(9)	17,000	--
James L. Payne(10)	36,918	0.1%
Michael A. Morphy(11)	34,246	0.1%
Robert F. Vagt(12)	35,253	0.1%
Robert J. Wasielewski(13)	2,311,948	4.2%
All directors and officers as a group (12 persons)	5,183,539	9.5%

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(1) Common stock ownership includes the shares that could be purchased by exercise of options available at August 31, 1997, within sixty days thereafter, or in the event of a change in control as defined in the Monterey's stock compensation plans, except as otherwise noted.

(2) Mr. Whaling's common stock ownership includes 901 shares arising from participation in Monterey's Savings Investment Plan, 37,500 shares of restricted stock granted in November, 1996, 5,725 shares of restricted stock granted in August, 1997 and 368,965 Non-Qualified Stock Options ("NQSOs"). The weighted average price of such options is $10.94.

(3) Mr. Kilpatrick's common stock ownership includes 1,463 shares arising from participation in Monterey's Savings Investment Plan, 15,000 shares of restricted stock granted in November, 1996, 3,210 shares of restricted stock granted in August, 1997 and 134,808 NQSOs. The weighted average price of such options is $13.79.

(4) Mr. Carman's common stock ownership includes 1,517 shares arising from participation in Monterey's Savings Investment Plan, 12,000 shares of restricted stock granted in December, 1996, 871 shares of restricted stock granted in August, 1997 and 46,096 NQSOs. The weighted average price of such options is $13.49.

(5) Mr. Anderson's common stock ownership includes 5,267 shares arising from participation in Monterey's Savings Investment Plan, 3,333 shares of restricted stock granted in December, 1996, 1,507 shares of restricted stock granted in August, 1997 and 54,896 NQSOs. The weighted average price of such options is $13.54. Mr. Anderson's common stock ownership also includes 2,000 shares owned by his wife for which Mr. Anderson disclaims beneficial ownership.

(6) Mr. Williams' common stock ownership includes 3,814 shares arising from participation in Monterey's Savings Investment Plan, 6,667 shares of restricted stock granted in December, 1996, 789 shares of restricted stock granted in August, 1997 and 83,211 NQSOs. The weighted average price of such options is $14.16.

(7) Mr. Hall's common stock ownership includes 4,928 shares arising from participation in Monterey's Savings Investment Plan, 3,333 shares of restricted stock granted in December, 1996 and 66,168 NQSOs. The weighted average price of such options is $13.67.

(8) Mr. Huff's common stock ownership includes 1,822,569 shares owned by clients of Ziff Brothers Investments ("ZBI"). Mr. Huff, who is a Principal of ZBI, disclaims beneficial ownership of these shares. Mr. Huff's common stock ownership also includes 1,000 shares of restricted stock granted in May, 1997, and 28,498 NQSOs. The weighted average price of such options is $13.89.

(9) Mr. Middleton's common stock ownership includes 1,000 shares of restricted stock granted in July, 1997, and 15,000 NQSOs. The weighted average price of such options is $13.875.

(10) Mr. Payne's common stock ownership includes 1,000 shares of restricted stock granted in July, 1997, and 15,000 NQSOs. The weighted average price of such options is $14.19.

(11) Mr. Morphy's common stock ownership includes 1,000 shares of restricted stock granted in May, 1997, and 28,498 NQSOs. The weighted average price of such options is $13.26.

(12) Mr. Vagt's common stock ownership includes 1,000 shares of restricted stock granted in May, 1997, and 28,498 NQSOs. The weighted average price of such options is $13.26.

(13) Mr. Wasielewski's common stock ownership includes 2,294,948 shares which may be deemed to be owned by GKH, primarily through its participation in HC Associates. Mr. Wasielewski is a Managing Director of GKH, the general partner of GKH Investment, L.P. and the nominee of GKH Private, Ltd., and disclaims beneficial ownership of shares held by GKH and HC Associates. Mr. Wasielewski's common stock ownership also includes 1,000 shares of restricted stock granted in May, 1997, and 15,000 NQSOs. The weighted average price of such

options is $14.96.

COMPARISON OF STOCKHOLDER RIGHTS

General

The rights of Texaco stockholders are currently governed by the DGCL and the certificate of incorporation and bylaws of Texaco (the "Texaco Charter" and the "Texaco Bylaws," respectively). The rights of Monterey stockholders are currently governed by the DGCL and the certificate of incorporation and bylaws of Monterey (the "Monterey Charter" and the "Monterey Bylaws," respectively). Accordingly, upon consummation of the Merger, the rights of Texaco stockholders and of Monterey stockholders who become Texaco stockholders in the Merger will be governed by the DGCL, the Texaco Charter and the Texaco Bylaws. The following is a summary of the principal differences between the current rights of Monterey stockholders and those of Texaco stockholders following the Merger.

The following summary is not intended to be complete and is qualified in its entirety by reference to the DGCL, the Texaco Charter, the Texaco Bylaws, the Monterey Charter and the Monterey Bylaws. Copies of the Texaco Charter, the Texaco Bylaws are incorporated by reference herein. Copies of the Monterey Charter and the Monterey Bylaws and the Texaco Charter and Texaco Bylaws will be sent to holders of shares of Texaco Common Stock and Monterey Common Stock upon request. See "Where You Can Find More Information" on page 66.

Comparison of Current Monterey Stockholder Rights and Rights of Texaco Stockholders Following the Merger

Neither the Texaco Bylaws nor the Texaco Charter is being amended in connection with the Merger.

The rights of Monterey stockholders under the DGCL and the Monterey Charter and Monterey Bylaws prior to the Merger are substantially the same as the rights of Texaco stockholders (including Monterey stockholders who become Texaco stockholders as a result of the Merger) under the DGCL and the Texaco Charter and Texaco Bylaws, with the following principal exceptions.

Authorized Capital Stock. The authorized capital stock of Monterey consists of 100,000,000 shares of Monterey Common Stock and 25,000,000 shares of preferred stock, par value $0.01 per share (the "Monterey Preferred Stock"). The authorized capital of Texaco is set forth under "Description of Texaco Capital Stock--Authorized Capital Stock" on page 65.

Board of Directors. The Monterey Charter provides that the number of directors shall be not fewer than three nor greater than fifteen persons, with the exact number to be determined by resolution of a majority of the Monterey Board. Pursuant to the Monterey Charter, the Monterey Board is classified into three classes, designated Class I, Class II and Class III. The current term for directors in Class I shall expire at the annual meeting of stockholders to be held in 2000; the initial term for directors in Class II shall expire at the annual meeting of stockholders to be held in 1998; and the initial term for directors in Class III shall expire at the annual meeting of stockholders to be held in 1999. At the expiration of the initial term of each class of directors, and of each succeeding term of each class, each class of directors shall be elected to serve until the annual meeting of stockholders held three years from such expiration. Monterey currently has 7 directors.

Nominations of persons for election to the Monterey Board may be made by the Monterey Board (or a nominating committee thereof), or by any Monterey stockholder according to the procedures described in the Monterey Bylaws. Under the Monterey Bylaws, vacancies in the Monterey Board must be filled by resolution of a majority of the Monterey Board (or a sole director, if applicable), and any director so appointed will hold office until the next annual election of directors of that class.

The Monterey Bylaws provide that the directors may be removed from office, but only for cause, by vote of the holders of a majority of shares entitled to vote at an election of directors.

The Texaco Bylaws provide that the number of directors shall be not fewer than three, with the exact number to be determined by resolution of a majority of the Texaco Board of Directors (the "Texaco Board"). Texaco currently has 14 directors. Pursuant to the Texaco Charter, the Texaco Board is classified into three classes, with directors of each class serving until the third annual meeting of stockholders after the annual meeting at which that class was elected. Neither the Texaco Charter nor the Texaco Bylaws provide for cumulative voting for election of directors. Nominations of persons for election to the Texaco Board may be made by or at the direction of the Texaco Board, or by Texaco stockholders according to the procedures described in the Texaco Bylaws. Under the Texaco Bylaws, vacancies in the Texaco Board may be filled by resolution of a majority of the Texaco Board, and any director so appointed will hold office until the next annual meeting of stockholders. Subject to any rights of holders of Texaco Preferred Stock (as defined below), pursuant to the Texaco Charter and Bylaws any director may be removed from office, with or without cause, only by the affirmative vote of the holders of 66 2/3% of the combined voting power of the then outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class.

Special Meetings of Stockholders. The Monterey Bylaws provide that special meetings of stockholders may be called by the chief

executive officer, and shall be called by the secretary at the written request of a majority of the Monterey Board. The Texaco Bylaws provide that special meetings of stockholders may be called by the chairman of the Texaco Board, or in his absence, by the vice-chairman of the Board, or, in their absence, the president, or by one third of the Directors then in office.

Amendment of Corporate Charter and Bylaws. The Monterey Charter provides that certain provisions relating to the composition of the Monterey Board, management of Monterey's business, issuance of rights to purchase Monterey securities and indemnification contained therein may only be amended by the affirmative vote of at least 80% of the voting power of all of the then outstanding shares of Monterey capital stock entitled to vote in an election of directors, voting together as a single class. The Texaco Charter provides that certain provisions relating to, among others, the calling of special meetings, voting rights, amendment of the Texaco Bylaws and composition of the Board contained therein may only be amended by the affirmative vote of at least 66 2/3% of the voting power of all of the then outstanding shares of Texaco capital stock entitled to vote in an election of directors, voting together as a single class. The Texaco Charter also provides that certain provisions relating to certain business combinations and certain stock repurchases may only be amended by the affirmative vote of at least 80% of the voting power of all of the then outstanding shares of Texaco capital stock entitled to vote in an election of directors, voting together as a single class. Amendment of any other provision of the Monterey Charter or the Texaco Charter is governed by the DGCL. The DGCL provides that a charter amendment requires the approval of a majority of the company's board of directors and the approval of the holders of a majority of the voting power of the then outstanding capital stock of the company.

The Monterey Bylaws expressly provide for their amendment by a majority of the Monterey Board by holders of not less than 80% of the voting power of the then outstanding capital stock of the company. The Texaco Bylaws expressly provide for their amendment by either the Texaco Board or a majority of the Texaco stockholders save that certain provisions relating to the composition of the Texaco Board contained therein may only be amended by the affirmative vote of at least 66 2/3% of the voting power of all of the then outstanding shares of Texaco capital stock entitled to vote in the election of directors, voting together as a single class.

Voting Rights. The Monterey Common Stock is the only outstanding class of Monterey capital stock entitled to vote generally on all matters submitted to Monterey stockholders, including the election of directors and the approval of the Merger and the Merger Agreement. Each outstanding share of Monterey Common Stock is entitled to one vote on all matters submitted to Monterey stockholders. There are currently no shares of Monterey Preferred Stock outstanding.

The outstanding equity securities of Texaco as of September 26, 1997 are the shares of Texaco Common Stock, shares of Series B ESOP Convertible Preferred Stock (the "Series B Preferred Stock"), shares of Series F ESOP Convertible Preferred Stock (the "Series F Preferred Stock") and shares of Market Auction Preferred Stock (the "Market Auction Preferred Stock"). Under the DGCL each share of Texaco Common Stock is entitled to one vote on all matters submitted to Texaco stockholders.

The holders of Series B Preferred Stock and Series F Preferred Stock are entitled to vote on all matters submitted to a vote of the stockholders of Texaco, voting together with the holders of Texaco Common Stock as one class. The holder of each share of Series B Preferred Stock and Series F Preferred Stock shall be entitled to a number of votes equal to the number of shares of Texaco Common Stock into which such share of Series B Preferred Stock or Series F Preferred Stock could be converted on the record date for determining the stockholders entitled to vote (which as of September 26, 1997 was 25.8 votes for Series B Preferred Stock and 20 votes for Series F Preferred Stock, subject to adjustment in the case of certain dilutive events).

The holders of Market Auction Preferred Stock have no voting rights other than certain voting rights relating to appointment of additional directors which only arise in the event of a default by Texaco in payment of dividends to holders of Market Auction Preferred Stock in accordance with the terms of the Texaco Charter.

Removal of Officers. The Monterey Bylaws permit the removal of any officer by an affirmative vote of a majority of the Monterey Board. The Texaco Bylaws permit the removal of any officer elected by the Board at any time with or without cause by an affirmative vote of a majority of the Texaco Board.

Certain Business Combinations and Stock Repurchases. Under the Texaco Charter certain business combinations require an affirmative vote of the holders of at least 80% of the voting power of the outstanding capital stock of Texaco entitled to vote generally in the election of directors, voting together as a single class, and certain stock repurchases require an affirmative vote of the holders of at least 50% of the voting power of the outstanding capital stock of Texaco entitled to vote generally in the election of directors, voting together as a single class (excluding the selling stockholder).

Monterey Rights Plan. Monterey has entered into the Monterey Rights Agreement with the Monterey Rights Agent. Pursuant to the Monterey Rights Agreement, rights (each, a "Monterey Right") attach to each share of Monterey Common Stock outstanding and entitle the registered holder to purchase from Monterey one-hundredth of a share of Monterey Preferred Stock at a purchase price of $45 (the "Monterey Purchase Price"), subject to adjustment. Each share of Monterey Common Stock outstanding has

attached thereto one Monterey Right.

The Monterey Rights will separate from the Monterey Common Stock (i) upon the earlier of (A) 10 days following a public announcement that a person or group of affiliated or associated persons (a "Monterey Acquiring Person") has acquired or obtained the right to acquire beneficial ownership of 15% or more of the outstanding shares of Monterey Common Stock (the "Monterey Stock Acquisition Date") and (B) 10 business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of such outstanding shares of Monterey Common Stock, or (ii) such later date as may be fixed by the Monterey Board (the date of any such event, the "Monterey Distribution Date"). Until the Monterey Distribution Date, (i) the Monterey Rights will be evidenced by Monterey Common Stock certificates and will be transferred with and only with Monterey Common Stock certificates, (ii) new Monterey Common Stock certificates will contain a notation incorporating the Monterey Rights Agreement by reference and (iii) the transfer of any certificates representing outstanding Monterey Common Stock outstanding will also constitute the transfer of the Monterey Rights associated with Monterey Common Stock represented by such certificate.

In the event that Monterey is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold after a person or group has become a Monterey Acquiring Person, each holder of a Monterey Right will thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Monterey Right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the Monterey Right. In the event that any person or group of affiliated or associated persons becomes a Monterey Acquiring Person, each holder of a Monterey Right, other than Monterey Rights beneficially owned by the Monterey Acquiring Person (which will thereafter be void), will thereafter have the right to receive upon exercise that number of shares of Monterey Common Stock having a market value of two times the exercise price of the Monterey Right.

At any time after any person or group becomes a Monterey Acquiring Person and prior to the acquisition by such person or group of 50% or more of the outstanding Monterey Common Stock, the Monterey Board may exchange the Monterey Rights (other than Monterey Rights owned by such person or group which will have become void), in whole or in part, at an exchange ratio of one share of Monterey Common Stock, or one one-hundredth of a share of Monterey Preferred Stock, per Monterey Right (subject to adjustment).

The Monterey Rights are not exercisable until the Monterey Distribution Date and will expire at the close of business on August 31, 1999 unless earlier redeemed by Monterey as further described in the Monterey Rights Agreement. At no time will the holder of the Monterey Rights as such have any voting power or any rights as a stockholder. Subject to certain exceptions, any of the provisions of the Monterey Rights Agreement may be amended by the Monterey Board prior to the Monterey Distribution Date.

Pursuant to the Merger Agreement, Monterey has amended the Monterey Rights Agreement so as to render the Monterey Rights inapplicable to the Merger and the other transactions contemplated by the Merger Agreement. See "The Merger Agreement--Certain Representations and Warranties" on page 27.

The above summary of the Monterey Rights Agreement does not purport to be complete and is qualified in its entirety by reference to the terms and conditions of the Monterey Rights Agreement. See "Where You Can Find More Information" on page 66.

Texaco Rights Plan. Texaco has entered into a rights agreement (the "Texaco Rights Agreement"), with The Chase Manhattan Bank, N.A. as rights agent (the "Texaco Rights Agent"). Pursuant to the Texaco Rights Agreement, rights (each, a "Texaco Right") attach to each share of Texaco Common Stock outstanding and entitle the registered holder to purchase from Texaco one-two hundredth of a share of Series D Junior Participating Preferred Stock (the "Series D Preferred Stock") at a purchase price of $75 (the "Texaco Purchase Price"), subject to adjustment. Each share of Texaco Common Stock outstanding has attached thereto one Texaco Right.

The Texaco Rights will separate from the Texaco Common Stock upon the earlier of (A) 10 days following a public announcement that, subject to certain exceptions, a person or group of affiliated or associated persons (an "Texaco Acquiring Person") has acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of Texaco Common Stock (the "Texaco Stock Acquisition Date") or (B) 10 business days (or such later date as may be fixed by the Texaco Board) following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of such outstanding shares of Texaco Common Stock, (the date of any such event, the "Texaco Distribution Date"). Until the Texaco Distribution Date, (i) the Texaco Rights will be evidenced by Texaco Common Stock certificates and will be transferred with and only with Texaco Common Stock certificates, (ii) new Texaco Common Stock certificates will contain a notation incorporating the Texaco Rights Agreement by reference and (iii) the transfer of any certificates representing outstanding Texaco Common Stock outstanding will also constitute the transfer of the Texaco Rights associated with Texaco Common Stock represented by such certificate.

The Texaco Rights will not be exercisable until the Texaco Distribution Date and will cease to be exercisable at the close of business on April 3, 1999. In addition, the Texaco Rights will expire automatically

(without payment of any redemption amount) upon the acquisition of Texaco pursuant to an all cash merger or consolidation which follows a Qualifying Offer (as hereinafter defined) and is at the same price per share paid in the Qualifying Offer.

In the event (a "Flip-In Event") that a person or group becomes the beneficial owner of 20% or more of the then outstanding shares of Texaco Common Stock, subject to certain exceptions, each Texaco Right (other than Texaco Rights which have become null and void as described below) will thereafter entitle the holder to receive, upon exercise of the Texaco Right and payment of the applicable Texaco Purchase Price, in lieu of the Series D Preferred Stock, a number of shares of Texaco Common Stock having a formula value equal to two times the exercise price of the Texaco Right. The formula value of a share of Texaco Common Stock, and thus the number of shares issuable upon the exercise of a Texaco Right, is based upon the average market price of a share of Texaco Common Stock during a specified period prior to the Flip-In Event. The actual value of such shares will depend upon the market price of a share of Texaco Common Stock after the Flip-In Event, giving effect to any dilution resulting from the issuance of such shares. If insufficient shares of Texaco Common Stock are authorized and available for this purpose, upon the proper exercise of a Texaco Right Texaco may deliver cash, property or other securities of Texaco (which may include preferred stock such as the Series D Preferred Stock) having a value equal to the average market price during a specified period after the Flip-In Event of the shares of Texaco Common Stock that would otherwise have been issued upon exercise of a Texaco Right. Texaco Rights will not become exercisable following the occurrence of a Texaco Stock Acquisition Date until such time as the Texaco Rights are no longer redeemable by Texaco as described below. In addition, following the occurrence of a Flip-In Event, all Texaco Rights that are, or under certain circumstances specified in the Texaco Rights Agreement were, beneficially owned by any Texaco Acquiring Person (or certain related persons) will be null and void.

A "Qualified Offer" is an all-cash tender offer for all outstanding shares of Texaco Common Stock which meets all of the following requirements: (1) the person or group making the tender offer must, prior to or upon commencing such offer, have provided to Texaco firm written commitments from responsible financial institutions, which have been accepted by such person or group, to provide, subject only to customary terms and conditions, funds for such offer which, when added to the amount of cash and cash equivalents which such person or group then has available and has irrevocably committed in writing to Texaco to utilize for purposes of the offer, will be sufficient to pay for all shares outstanding on a fully diluted basis and all related expenses; (2) such person or group must own, after consummating such offer, shares of voting stock of Texaco representing a majority of the voting power of the then outstanding shares of voting stock; (3) such offer must in all events (except in certain limited circumstances set forth in the Texaco Rights Agreement) remain open for at least 45 business days and must be extended for at least 20 business days after the last increase or permitted decrease in the price offered and after any bona fide higher alternative offer is made; and (4) prior to or upon commencing such offer, such person or group must irrevocably commit in writing to Texaco (x) to consummate promptly upon completion of the offer an all-cash transaction or transactions whereby all remaining shares of Texaco Common Stock will be acquired at the same price per share paid pursuant to the offer, provided that the Texaco Board has granted any approvals required to enable such person or group to consummate such transaction or transactions without obtaining the vote of any other stockholder, (y) that such person or group will not amend such offer to reduce the per share price offered (except in certain limited circumstances set forth in the Texaco Rights Agreement), change the form of consideration offered, reduce the number of shares being sought or in any other respect which is materially adverse to Texaco's stockholders, and (z) that such person or group will not make any offer for any equity securities of Texaco for six months after commencement of the original offer if the original offer does not result in the tender of the number of shares required to be purchased pursuant to clause (2) above, unless another all-cash tender offer for all outstanding shares of Texaco Common Stock is commenced (a) at a price in excess of that provided for in such original offer, (b) on terms satisfying clauses (1) and (4) of this paragraph (in which event, any new offer by such person or group must be at a price no less than that provided for in the original offer of such person or group) or (c) with the approval of Texaco's Board (in which event any new offer by such person or group must be at a price no less than that provided for in such approved offer).

In the event that, at any time following the Texaco Stock Acquisition Date, (A) Texaco is acquired in a merger or other business combination transaction in which Texaco is not the surviving corporation (other than an all-cash merger or consolidation which follows a Qualifying Offer and is at the same price per share paid in the Qualifying Offer), or (B) 50% or more of Texaco's assets or earning power is sold or transferred, each holder of a Texaco Right (except Texaco Rights which previously have been voided as set forth above) shall thereafter have the right to receive, upon exercise, Texaco Common Stock of the acquiring company having a value equal to two times the exercise price of the Texaco Right.

In general, Texaco may redeem the Texaco Rights in whole, but not in part, at any time until ten days following the Texaco Stock Acquisition Date (which period may be extended at any time while the Texaco Rights are still redeemable), at a price of $.01 per Texaco Right, payable in cash, Texaco Common Stock or other consideration deemed appropriate by the Texaco Board. Immediately upon the action of the Texaco Board ordering redemption of the Texaco Rights, the Texaco Rights will terminate and the only right of the holders of Texaco Rights will be to receive the $.01 per Texaco Right redemption price.

Until a Texaco Right is exercised, the holder thereof, as

such, will have no rights as a stockholder of Texaco, including the right to vote or to receive dividends.

Other than those provisions relating to the basic economic terms of the Texaco Rights and the criteria that define a Qualifying Offer, any of the provisions of the Texaco Rights Agreement may be amended by the Texaco Board prior to the Texaco Distribution Date to shorten or lengthen any time period and otherwise in any manner which the Board determines is generally consistent with the purposes for which the Texaco Rights Agreement was adopted; provided, however, that the Texaco Rights Agreement may be amended in any respect by the Texaco Board prior to the Texaco Distribution Date if the amendment has been approved at an annual or special meeting of Texaco stockholders at which a quorum is present by the affirmative vote of the holders of a majority of the voting power of the shares entitled to vote and voting (in person or by proxy) for or against such amendment at such meeting. After the Texaco Distribution Date, the provisions of the Texaco Rights Agreement may be amended by the Texaco Board in order to cure any ambiguity, to make changes that do not adversely affect the interest of holders of Texaco Rights (excluding the interest of any Texaco Acquiring Person), or to shorten or lengthen any time period under the Texaco Rights Agreement; provided, however, that no amendment to adjust the time period governing redemption shall be made at such time as the Texaco Rights are not redeemable.

The above summary of the Texaco Rights Agreement does not purport to be complete and is qualified in its entirety by reference to the terms and conditions of the Texaco Rights Agreement. See "Where You Can Find More Information" on page 66.

DESCRIPTION OF TEXACO CAPITAL STOCK

The summary of the terms of the capital stock of Texaco set forth below does not purport to be complete and is qualified by reference to the Texaco Charter and Texaco Bylaws. Copies of the Texaco Charter and Texaco Bylaws are incorporated by reference herein and will be sent to holders of shares of Texaco Common Stock and Monterey Common Stock upon request. See "Where You Can Find More Information" on page 66. For a comparison of certain provisions of the Texaco Charter and the Monterey Charter, see "Comparison of Stockholder Rights" on page 59.

Authorized Capital Stock

Under the Texaco Charter, Texaco's authorized capital stock consists of 700,000,000 shares of Texaco Common Stock, par value $3.125 per share, and 30,000,000 shares of Preferred Stock, par value $1.00 per share (the "Texaco Preferred Stock").

Texaco Common Stock

The holders of Texaco Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Subject to preferences that may be applicable to any outstanding Texaco Preferred Stock, holders of Texaco Common Stock are entitled to receive ratably such dividends as may be declared by the Texaco Board out of funds legally available therefor. In the event of a liquidation or dissolution of Texaco, holders of Texaco Common Stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any outstanding Texaco Preferred Stock.

Holders of Texaco Common Stock have no preemptive rights and have no rights to convert their Texaco Common Stock into any other securities. All of the outstanding shares of Texaco Common Stock are, and the shares of Texaco Common Stock issued pursuant to the Merger will be, duly authorized, validly issued, fully paid and nonassessable.

Texaco Preferred Stock

The Texaco Board is authorized to designate any series of Texaco Preferred Stock and the powers, preferences and rights of the shares of such series and the qualifications, limitations or restrictions thereof without further action by the holders of Texaco Common Stock. There are 833,333.33 shares designated as Series B Preferred Stock, 67,796.61 shares designated as Series F Preferred Stock, 1,200 shares designated as Market Auction Preferred Stock, and 3,000,000 shares designated as Series D Preferred Stock. As of September 26, 1997, there were outstanding 699,011 shares of Series B ESOP Convertible Preferred Stock, 56,285 shares of Series F ESOP Convertible Preferred Stock, 1,200 shares of Market Auction Preferred Stock, and no shares of Series D Preferred Stock.

Transfer Agent and Registrar

Texaco is the transfer agent and registrar for the Texaco Common Stock.

Stock Exchange Listing; Delisting and Deregistration of Monterey Common Stock

It is a condition to the Merger that the shares of Texaco Common Stock issuable in the Merger be approved for listing on the NYSE on or prior to the Effective Time, subject to official notice of issuance. If the Merger is consummated, Monterey Common Stock will cease to be listed on the NYSE.

LEGAL MATTERS

The validity of the Texaco Common Stock to be issued to

Monterey stockholders pursuant to the Merger will be passed upon by Davis Polk & Wardwell, special counsel to Texaco. It is a condition to the consummation of the Merger that Monterey and Texaco receive opinions from Andrews & Kurth and Davis Polk & Wardwell, respectively, with respect to certain tax matters. See "The Merger--Certain U.S. Federal Income Tax Consequences" and "The Merger Agreement--Conditions to the Merger" on pages 18 and 27, respectively.

EXPERTS

The consolidated financial statements of Texaco for the year ended December 31, 1996, incorporated by reference in this Proxy/Prospectus have been audited by Arthur Andersen LLP, independent accountants, as indicated in their report with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in accounting and auditing in giving such reports.

The financial statements of Monterey Resources, Inc. as of December 31, 1996 and 1995 and for each of the three years in the period ended December 31, 1996 included in this Proxy Statement/Prospectus have been so included in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated balance sheets as of December 31, 1996 and 1995 and the consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996 of McFarland Energy, Inc. included in this Prospectus have been included herein in reliance on the report of Coopers & Lybrand L.L.P., independent accountants, given on the authority of that firm as experts in accounting and auditing.

FUTURE STOCKHOLDER PROPOSALS

Any Texaco stockholder who intends to submit a proposal for inclusion in the proxy materials for the 1998 annual meeting of Texaco stockholders must submit such proposal to the Secretary of Texaco by November 29, 1997. Monterey expects to hold an annual meeting of stockholders in the first calender quarter of 1998 unless the Merger is completed prior thereto. Any Monterey stockholder who intends to submit a proposal for inclusion in the proxy materials for the 1998 annual meeting of Monterey, if any, must submit such proposal to the Secretary of Monterey by November 24, 1997.

SEC rules set forth standards as to what stockholder proposals are required to be included in a proxy statement for an annual meeting.

WHERE YOU CAN FIND MORE INFORMATION

Monterey and Texaco file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information filed by either company at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-

0330 for further information on the public reference rooms. The companies' SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at "http://www.sec.gov." Such material should also be available for inspection at the library of the NYSE, 20 Broad Street, New York, New York 10005.

Texaco filed a Registration Statement on Form S-4 to register with the SEC the Texaco Common Stock to be issued to Monterey stockholders in the Merger. This Proxy Statement/Prospectus is a part of that Registration Statement and constitutes a prospectus of Texaco in addition to being a proxy statement of Monterey for the Special Meeting. As allowed by SEC rules, this Proxy Statement/Prospectus does not contain all the information you can find in the Registration Statement or the exhibits to the Registration Statement.

The SEC rules allow Texaco to "incorporate by reference" information into this Proxy Statement/Prospectus, which means important information may be disclosed to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this Proxy Statement/Prospectus, except for any information superseded by information in (or incorporated by reference in) this Proxy Statement/Prospectus. This Proxy Statement/Prospectus incorporates by reference the documents set forth below that have been previously filed with the SEC. These documents contain important information about Texaco and its finances.

Texaco SEC Filings (File No. 1-27)	Period
Annual Report on Form 10-K	Year ended December 31, 1996.
Quarterly Reports on Form 10-Q	Quarters ended June 30, 1997 and March 31, 1997.
Current Reports on Form 8-K	Filed August 19, 1997; July 25, 1997; July 22, 1997; July 17, 1997; June 19, 1997; April 22, 1997; March 19, 1997; January 29, 1997; January 23, 1997; January 7, 1997.

Texaco is also incorporating by reference additional documents that it may file with the SEC between the date of this Proxy Statement/Prospectus and the date of the Special Meeting.

Texaco has supplied all information contained or incorporated by reference in this Proxy Statement/Prospectus relating to Texaco, and Monterey has supplied all such information relating to Monterey.

You can obtain copies of any of the documents described above through Texaco or the SEC. Documents incorporated by reference are available from Texaco without charge, excluding all exhibits unless we have specifically incorporated by reference an exhibit in this Proxy Statement/Prospectus. Stockholders may obtain documents incorporated by reference in this Proxy Statement/Prospectus by requesting them in writing or by telephone from Texaco at the following address:

Texaco Inc.
2000 Westchester Avenue
White Plains, New York 10650
Tel: (914) 253-4000
Attention: Secretary

If you would like to request documents from Texaco, please do so by October 28, 1997 to receive them before the Special Meeting.

You should rely only on the information contained or incorporated by reference in this Proxy Statement/Prospectus to vote on the approval of the Merger Agreement and the Merger. Neither Monterey nor Texaco has authorized anyone to provide you with information that is different from what is contained in this Proxy Statement/Prospectus. This Proxy Statement/Prospectus is dated September 29, 1997. You should not assume that the information contained in the Proxy Statement/Prospectus is accurate as of any date other than such date, and neither the mailing of this Proxy Statement/Prospectus to stockholders nor the issuance of Texaco Common Stock in the Merger shall create any implication to the contrary.

Monterey and the Monterey logo are trademarks or registered trademarks of Monterey Resources, Inc. in the United States and/or other countries. Texaco and the Texaco logo are registered trademarks of Texaco Inc. All other brand and product names are trademarks or registered trademarks of their respective companies.

LIST OF DEFINED TERMS

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INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Monterey Resources, Inc.

In our opinion, the accompanying balance sheet and the related statements of operations, of cash flows and of division equity and shareholders' equity present fairly, in all material respects, the financial position of Monterey Resources, Inc. at December 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Houston, Texas
February 20, 1997

STATEMENT OF OPERATIONS
(in millions of dollars, except per share data)

	Year Ended December 31,		
	1996	1995	1994
Revenues			
Sales of crude oil and liquids produced	$269.9	$209.4	$177.1
Sales of natural gas produced	1.3	1.9	1.6
Sales of crude oil purchased	21.1	6.6	11.9
Other	0.6	0.8	1.3
	292.9	218.7	191.9
Costs and Expenses			
Production and operating	107.8	86.1	87.4
Cost of crude oil purchased	20.8	6.5	11.7
Exploration, including dry hole costs	1.7	2.4	1.4
Depletion, depreciation and amortization	37.4	32.4	32.0
General and administrative	8.9	7.3	7.8
Taxes (other than income)	9.4	7.9	8.7
Restructuring charges	--	--	1.1
Loss (gain) on disposition of properties	--	--	(0.3)
	186.0	142.6	149.8
Income from Operations	106.9	76.1	42.1
Interest income	0.1	--	--
Interest expense	(25.0)	(25.8)	(26.4)
Interest capitalized	1.1	0.7	0.6
Other income (expenses)	--	(0.6)	(0.1)
Income before Income Taxes and Extraordinary Items	83.1	50.4	16.2
Income taxes	(28.3)	(16.0)	(4.7)
Income Before Extraordinary Items	54.8	34.4	11.5
Extraordinary items	(4.5)	--	--
Net Income	$50.3	$34.4	$11.5
Pro forma Per Share Data			
Income before extraordinary items	$1.00	$0.63	$0.21
Extraordinary items	(0.08)	--	--
Net Income	$0.92	$0.63	$0.21
Number of shares used in computing per share amounts (in millions)	54.8	54.8	54.8

The accompanying notes are an integral part of these financial statements.

MONTEREY RESOURCES, INC.
BALANCE SHEET
(in millions of dollars)

	December 31,	
	1996	1995
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9.3	$ --
Accounts receivable	46.4	20.6
Inventories	1.7	1.4
Other current assets	9.3	0.6
	66.7	22.6
Properties and Equipment, at cost		
Oil and gas (on the basis of successful efforts accounting)	1,016.1	970.8
Other	14.2	20.0
	1,030.3	990.8
Accumulated depletion, depreciation and amortization	(651.3)	(623.5)
	379.0	367.3
Other Assets	1.5	1.4
	$447.2	$391.3
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$34.2	$8.3

Interest payable	4.7	6.4
Taxes payable	5.8	2.0
Accrued employee benefits	1.1	2.7
Other current liabilities	3.0	1.5
	48.8	20.9
Long-Term Debt	175.0	245.0
Other Long-Term Obligations	3.5	5.7
Deferred Income Taxes	43.2	74.7
Commitments and Contingencies (Note 11)	--	--
Shareholders' Equity		
Preferred stock, $0.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, $0.01 par value, 100,000,000 shares authorized, 54,757,499 shares issued and outstanding	0.5	--
Paid-in capital	170.8	--
Unamortized restricted stock awards	(1.0)	--
Retained earnings	6.4	--
Division equity	--	45.0
	176.7	45.0
	$ 447.2	$ 391.3

The accompanying notes are an integral part of these financial statements.

MONTEREY RESOURCES, INC.
STATEMENT OF CASH FLOWS
(in millions of dollars)

	Year Ended December 31,		
	1996	1995	1994
Operating Activities:			
Net income	$ 50.3	$ 34.4	$ 11.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	37.4	32.4	32.0
Deferred income taxes	4.2	7.7	4.7
Net loss (gain) on disposition of properties	--	--	(0.3)
Exploratory dry hole costs	0.3	1.0	--
Other	--	(0.2)	(0.1)
Changes in operating assets and liabilities			
Decrease (increase) in accounts receivable	(25.8)	2.0	(5.5)
Decrease (increase) in other current assets	(0.3)	0.5	0.5
Increase (decrease) in accounts payable	17.6	(2.8)	(3.5)
Increase (decrease) in interest payable	(1.8)	--	--
Increase (decrease) in other current liabilities	5.8	(2.8)	4.9
Net change in other assets and liabilities	(1.4)	3.5	1.3
Net Cash Provided by Operating Activities	86.3	75.7	45.5
Investing Activities:			
Capital expenditures, including exploratory dry hole costs	(43.0)	(52.9)	(27.3)
Acquisition of producing properties	(3.4)	(1.3)	--
Proceeds from sales of properties	0.1	--	9.1
Other investing activities	(8.3)	--	--
Net Cash Used in Investing Activities	(54.6)	(54.2)	(18.2)
Financing Activities:			
Net proceeds from issuance of common stock			
Initial public offering	123.6	--	--
Issued to parent	0.4	--	--
Principal payments on long-term borrowings	(70.0)	--	(12.6)
Settlement of production payment	(30.0)	--	--
Net change in revolving credit agreement	(16.0)	--	--
Dividends to parent	(30.4)	(21.5)	(14.7)
Net Cash Used in Financing Activities	(22.4)	(21.5)	(27.3)
Net Increase in Cash and Cash Equivalents	9.3	--	--
Cash and Cash Equivalents at Beginning of Period	--	--	--
Cash and Cash Equivalents at End of Period	$ 9.3	$ --	$ --

The accompanying notes are an integral part of these financial statements.

MONTEREY RESOURCES, INC.
STATEMENT OF DIVISION EQUITY AND SHAREHOLDERS' EQUITY
(shares and dollars in millions)

	Division Equity	Common Stock Shares	Common Stock Amount	Paid-in Capital	Unamortized Restricted Stock Awards	Retained Earnings	Total Division Equity and Shareholders' Equity
Balance at December 31, 1993	$ 35.3	--	$ --	$ --	$ --	$ --	$ 35.3
Net income	11.5	--	--	--	--	--	11.5
Dividends to parent	(14.7)	--	--	--	--	--	(14.7)
Balance at December 31, 1994	32.1	--	--	--	--	--	32.1
Net income	34.4	--	--	--	--	--	34.4
Dividends to parent	(21.5)	--	--	--	--	--	(21.5)
Balance at December 31, 1995	45.0	--	--	--	--	--	45.0
Net income	43.9	--	--	--	--	6.4	50.3
Dividends to parent	(30.4)	--	--	--	--	--	(30.4)
Issuance of common stock:							
Net assets contributed at book value	(58.5)	45.4	0.4	22.4	--	--	(35.7)
Step-up in tax basis of certain assets	--	--	--	23.9	--	--	23.9
Initial public offering	--	9.3	0.1	123.5	--	--	123.6
Employee stock compensation	--	0.1	--	1.0	(1.0)	--	--
Balance at December 31, 1996	$ --	54.8	$ 0.5	$170.8	$(1.0)	$ 6.4	$176.7

The accompanying notes are an integral part of these financial statements.

MONTEREY RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Organization And Basis of Presentation

Monterey Resources, Inc. (the "Company" or "Monterey") was formed in 1996 to assume the operations of Santa Fe Energy Resources, Inc.'s ("SFR") Western Division (the "Western Division") which conducted SFR's operations in the state of California. The Company's financial statements include (i) the operations of the Western Division for the years ended December 31, 1994 and 1995, and for the period January 1, 1996 through October 31, 1996, and (ii) the operations of the Company for the two months ended December 31, 1996. The financial statements for these periods are presented as if the Western Division existed as a entity separate from SFR and include the historical assets, liabilities, revenues and expenses that are directly related to the Company's operations, and include allocations from certain SFR income statement and balance sheet accounts. Such allocations are considered reasonable by management and are discussed further in Note 4. Certain prior period amounts have been reclassified to conform to current presentation.

In November 1996, prior to the initial public offering (the "IPO") discussed below, pursuant to a contribution and conveyance agreement, among other things: (i) SFR contributed to Monterey substantially all of the assets and properties of the Western Division, subject to the retention by SFR of a $30.0 million production payment; (ii) the Company assumed all obligations and liabilities of SFR associated with or allocated to the assets and properties of the Western Division, including $245.0 million of indebtedness in respect of SFR's 10.23% Series E Notes due 1997, 10.27% Series F Notes due 1998 and 10.61% Series G Notes due 2005 (the "Series E Notes", "Series F Notes" and "Series G Notes", respectively); (iii) Monterey agreed to purchase from SFR an $8.3 million promissory note receivable, which bears interest at prime plus 2%, compounded quarterly, related to the sale to a third party of certain surface acreage located in Orange County, California and secured by a Deed of Trust thereon, and (iv) Monterey agreed to pay certain investment advisory fees which approximate $3.5 million on behalf of SFR, payable only upon the occurrence of the Spin Off (See Note 3). Also prior to the IPO, Monterey and SFR entered into a $75.0 million revolving credit facility with a group of banks (the "Credit Facility") and borrowed $16.0 million which was retained by SFR.

In exchange for the net assets contributed, the Company issued 45,350,000 shares of its common stock to SFR. The transfer of assets resulted in a step-up in the tax basis of certain transferred assets, and the Company recorded a $23.9 million deferred tax asset related to the step-up as a credit

to paid-in capital.

In November 1996 Monterey completed its IPO, selling 9,335,000 shares of its common stock for total consideration of $123.6 million (after deducting underwriting discounts of $9.1 million and other costs of $2.6 million). The proceeds from the IPO were used in part to (i) repay the Series E Notes and the Series F Notes ($70.0 million) and pay a prepayment penalty thereon of $2.5 million; (ii) retire the production payment ($30.0 million); (iii) repay the $16.0 million outstanding under the Credit Facility; and (iv) pay a $2.0 million fee with respect to a supplement to the indenture relating to SFR's 11% Senior Subordinated Debentures due 2004 to permit the IPO and the Spin Off (as defined in Note 3) to proceed without the occurrence of a breach or default under such indenture. Subsequent to the IPO, Monterey issued $175.0 million in aggregate principal amount of 10.61% Senior Notes due 2005 (the "Senior Notes") to holders of the Series G Notes in exchange for the cancellation of such notes and paid a $1.3 million consent fee in connection therewith. In December 1996 the Company purchased the previously mentioned $8.3 million note receivable, which bears interest at prime plus 2% and matures on June 30, 1997, from SFR for cash.

The costs and expenses relating to the early extinguishment of debt assumed in the IPO as discussed above, and $1.0 million of related transaction costs, are reflected in the Statement of Operations as an extraordinary item, net of $2.3 million in income taxes.

At December 31, 1996, SFR owned 82.8% of the Company's outstanding common stock. SFR has announced that it intends to distribute pro rata to its common shareholders all of the shares of the Company's common stock that it owns by means of a tax-free distribution. See Note 3.

(2) Summary of Significant Accounting Policies

Oil and Gas Operations

The Company follows the successful efforts method of accounting for its oil and gas exploration and production activities. Costs (both tangible and intangible) of productive wells and development dry holes, as well as the cost of prospective acreage, are capitalized. The costs of drilling and equipping exploratory wells which do not find proved reserves are expensed upon determination that the well does not justify commercial development. Other exploratory costs, including geological and geophysical costs and delay rentals, are charged to expense as incurred.

Depletion and depreciation of proved properties are computed on an individual field basis using the unit-of-production method based upon proved oil and gas reserves attributable to the field. Certain other oil and gas properties are depreciated or amortized on a straight-line basis.

In the fourth quarter of 1995 the Company changed its impairment policy to conform to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". In accordance with the provisions of SFAS No. 121 individual proved properties are reviewed periodically to determine if the carrying value of the property exceeds the expected undiscounted future net cash flows from the operation of the property. Based on this review and the continuing evaluation of development plans, economics and other factors, as appropriate, the Company records impairment (additional depletion and depreciation) to the extent that the carrying value of the property exceeds the fair value, based on discounted future net cash flows. No impairments were recorded in connection with the adoption of SFAS No. 121.

The Company provides for future abandonment and site restoration costs with respect to certain of its oil and gas properties. The Company estimates that with respect to these properties such future costs total approximately $19.1 million and such amount is being accrued using unit-of-production rates over the expected life of the properties. At December 31, 1996 and 1995, Accumulated Depletion, Depreciation and Amortization includes $6.2 million and $4.8 million, respectively, of such costs.

The value of undeveloped acreage is aggregated and the portion of such costs estimated to be nonproductive, based on historical experience, is amortized to expense over the average holding period. Additional amortization may be recognized based upon periodic assessment of prospect evaluation results. The cost of properties determined to be productive is transferred to proved properties; the cost of properties determined to be nonproductive is charged to accumulated amortization.

Maintenance and repairs are expensed as incurred; major renewals and improvements are capitalized. Gains and losses arising from sales of properties are included in income currently.

The Company's financial statements reflect its proportionate interest in the revenues, costs, expenses and capital with respect to properties in which its ownership is less than 100%.

Revenue Recognition

Revenues from the sale of crude oil and liquids produced are generally recognized upon the passage of title (generally when the crude oil and liquids leave the field), net of royalties and net profits interests. Revenues from sales of crude oil purchased relate to the sales of low viscosity crude oil purchased and blended with certain of the Company's high viscosity, low gravity crude oil production, either to facilitate pipeline transportation or to realize higher marketing margins. The cost to purchase such crude oil is reflected as an expense. Revenues from natural gas production are generally recorded using the entitlement method, net of royalties and net profits interests.

From time to time a portion of the Company's oil sales have been hedged. See Note 11--Commitments and Contingencies--Hedging.

Accounts Receivable

Accounts Receivable relates primarily to sales of oil and gas and amounts due from joint interest partners for expenditures made by the Company on behalf of such partners. The Company reviews the financial condition of potential purchasers and partners prior to signing sales or joint interest agreements.

Inventories

Inventories are valued at the lower of cost (average price or first-in, first-out) or market. Crude oil inventories at December 31, 1996 and 1995 were $0.9 million and $0.8 million, respectively, and materials and supplies inventories at such dates were $0.8 million and $0.6 million, respectively.

Environmental Expenditures

Environmental expenditures relating to current operations are expensed or capitalized, as appropriate, depending on whether such expenditures provide future economic benefits. Liabilities are recognized when the expenditures are considered probable and can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology and undiscounted site-specific costs. Generally, such recognition coincides with the Company's commitment to a formal plan of action.

Income Taxes

The Company is included in the consolidated tax return of SFR and records a provision for income taxes under the terms of the Tax Allocation Agreement with SFR (See Note 12). The Company follows the asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities are determined using the tax rate for the period in which those amounts are expected to be received or paid, based on a scheduling of temporary differences between the tax bases of assets and liabilities and their reported amounts. Under this method of accounting for income taxes, any future changes in income tax rates will affect deferred income tax balances and financial results.

Use of Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires the Company to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and the periods in which certain items of revenue and expense are included. Actual results may differ from such estimates.

Pro Forma Per Share Data

Common shares outstanding at November 19, 1996, the closing date of the Company's IPO, have been included in the pro forma per share calculations as if such shares were outstanding for all periods prior to November 19, 1996.

(3) Intended Spin Off

SFR has announced that it intends to distribute pro rata to its common shareholders all of the shares of the Company's common stock it owns by means of a tax-free distribution (the "Spin Off"). SFR's final determination to proceed will require a declaration of the Spin Off by SFR's board of directors. Such a declaration is not expected to be made until certain conditions, many of which are beyond the control of SFR, are satisfied, including: (i) receipt by SFR of a ruling from the Internal Revenue Service as to the tax-free nature of the Spin Off, (ii) approval of the Spin Off by SFR's stockholders; (iii) the absence of any future change in future market or economic conditions (including developments in the capital markets) or SFR's or the Company's business and financial condition that causes SFR's board to conclude that the Spin Off is not in the best interests of SFR's shareholders. The Company has been advised by SFR that it does not expect the Spin Off to occur prior to August 1997. If SFR consummates the Spin Off, the increased shares available in the marketplace may have an adverse effect on the market price of the Company's common stock. Monterey has been advised by SFR that as of December 31, 1996, SFR had approximately 38,500 shareholders of record.

Pursuant to the terms of a letter agreement dated as of June 13, 1996, a fee will be payable by the Company to Chase Securities Inc. and Petrie Parkman & Co., Inc. upon consummation of the Spin Off. The total amount of such fee is equal to the product of (a) the sum of the market value of the shares of the Company's common stock distributed in the Spin Off (based upon the average closing price of the Company's common stock during the ten trading days after the Spin Off) plus the aggregate principal amount of long-term indebtedness assumed by the Company in connection with the Spin Off (which totalled $175.0 million) times (b) 0.5%, less $1.0 million. If the market value of the Company's common stock at the time of the Spin Off is $16.00 per share, the Company estimates the total fee payable would be approximately $3.5 million, of which $1.75 million would be payable to each of Chase Securities and Petrie Parkman. In addition, a fee of $400,000 will be payable to GKH Partners, L.P., of which $200,000 will be payable by each of the Company and SFR. One of the Company's directors is associated with GKH Partners.

(4) Related-Party Transactions

The financial statements for Western Division for each of the

periods presented include certain allocations from SFR income statement and balance sheet accounts, which are considered reasonable and necessary by management to properly reflect the actual costs incurred of the Western Division's operations. The Western Division's results of operations include corporate overhead allocations as follows: (i) production and operating expense includes $2.4 million in 1996, $1.9 million in 1995 and $3.0 million in 1994; (ii) exploration expense includes $0.3 million in 1996, $0.5 million in 1995 and $0.5 million in 1994; and (iii) general and administrative expense includes $5.3 million in 1996, $6.4 million in 1995 and $7.9 million in 1994. If the Western Division had been a separate, unaffiliated entity, the Company estimates that general and administrative expense would have been higher by $0.6 million, $2.1 million and $1.2 million in 1996, 1995 and 1994, respectively. SFR provided cash management services to the Western Division through a centralized treasury system and therefore all intercompany accounts were settled daily and no cash balances were maintained by the Western Division. All cash generated from the Western Division's operations, after considering revenues and deductions for expenses (including corporate allocations), capital expenditures and working capital requirements, were deemed to be cash dividends to SFR.

SFR provides various administrative and financial services to the Company, including administration of certain employee benefits plans, access to telecommunications, corporate legal assistance and certain other corporate staff and support services. The Company and SFR have entered into a Services Agreement under which the Company pays a fee of $120,000 per month for such services until such time as the Company assumes full responsibility during 1997 for each of the services covered by the agreement. General and administrative expense for 1996 includes $240,000 of such costs.

See Note 1 for a discussion of the Company's purchase of an $8.3 million promissory note from SFR, Note 3 for discussion of advisory fees payable upon consummation of the Spin Off to an affiliate of one of the Company's directors and Note 10 for discussion of the participation of certain of the Company's employees in SFR's employee benefit and pension plans.

(5) Cash Flows

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The Company made interest payments of $26.8 million, $25.8 million and $26.3 million in 1996, 1995 and 1994, respectively.

(6) Financing and Debt

Long-Term Debt at December 31, 1996 and 1995 consisted of (in millions of dollars):

	December 31,			
	1996		1995	
	Current	Long-Term	Current	Long-Term
Senior Notes.....	--	175.0	--	--
SFR Series E & F Notes...	--	--	--	70.0
SFR Series G Notes.....	--	--	--	175.0
	--	175.0	--	245.0

In November 1996 the Company issued the Senior Notes which were exchanged for $175.0 million of senior notes previously issued by SFR. The Senior Notes bear interest at 10.61% per annum and mature $25 million per year in each of the years 1999 through 2005.

Effective November 13, 1996 the Company entered into the Credit Facility which matures November 13, 2000. The Credit Facility permits the Company to obtain revolving credit loans and issue letters of credit up to an aggregate amount of up to $75.0 million, with the aggregate amount of letters of credit outstanding at any time limited to $15.0 million. Borrowings are unsecured and interest rates are tied to the bank's prime rate or eurodollar rate, at the option of the Company.

The Credit Facility and Senior Notes include covenants that restrict the Company's ability to take certain actions, including the ability to incur additional indebtedness and to pay dividends on capital stock. Under the most restrictive of these covenants, at December 31, 1996, the Company could incur up to $253.4 million of additional indebtedness, or incur a lesser amount and pay dividends of up to $61.7 million. The Company's ability to pay dividends is limited by provisions in the Credit Facility and the Senior Notes prohibiting the payment of more than $31.0 million in dividends to SFR in any fiscal year prior to the Spin Off.

At December 31, 1996, the Company had $2.3 million of outstanding letters of credit.

In 1994 the Company retired the $12.6 million outstanding balance of a term loan which the Company had incurred in 1991 in connection with the purchase of certain producing properties.

(7) Fair Value of Financial Instruments

SFAS No. 107 "Disclosure About Fair Value of Financial Instruments" requires the disclosure, to the extent practicable, of the fair value of financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not representative of the amount that could be realized or settled, nor does

the fair value amount consider the tax consequences, if any, of realization or settlement. The following table reflects the financial instruments for which the fair value differs from the carrying amount of such financial instrument in the Company's December 31, 1996 and 1995 balance sheets (in millions of dollars):

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt.....	175.0	199.9	245.0	267.9

The fair value of the Company's long-term debt is based upon current borrowing rates available for financings with similar terms and maturities.

(8) Segment Information

The principal business of the Company consists of the acquisition, exploration and development of oil and gas properties and the production and sale of crude oil and liquids and natural gas. All such operations are located in the United States.

Crude oil and liquids accounted for about 99% of revenues in 1996, 1995 and 1994. The following table (which, with respect to certain properties, includes royalty and working interest owners' share of production) reflects sales to crude oil purchasers who accounted for more than 10% of the Company's crude oil and liquids revenues (in millions of dollars):

	Year Ended December 31,		
	1996	1995	1994
Shell Oil Company.....	35	44	42
Celeron Corporation.....	22	28	31

(9) Shareholders' Equity

Common Stock

In a public offering in November 1996 the Company issued 9,335,000 shares of common stock. The issue price was $14.50 per share and the Company received total proceeds of $123.6 million, after deducting underwriting costs of $9.1 million and other costs of $2.6 million. Immediately prior to the IPO the Company issued 45,350,000 shares to SFR in exchange for the net assets of the Western Division.

The Company currently intends to pay to its stockholders a quarterly dividend of $0.15 per share of common stock ($0.60 annually). The first dividend has been declared and will be paid in April 1997, consisting of a pro rated dividend of $0.22 in respect of the Company's first partial quarter ended December 31, 1996, and for its first full quarter of operations ending March 31, 1997.

1996 Incentive Stock Compensation Plan

Under the terms of the Monterey Resources, Inc. 1996 Incentive Stock Compensation Plan (the "Plan") the Company may grant options and awards with respect to no more than 3,000,000 shares of common stock to officers, directors and key employees. Up to 500,000 of such shares may be issued as Restricted Stock. During 1996, the Company granted options on 248,500 shares at an average exercise price of $14.59 per share, with each option granted having an average fair value of $7.77 per share. The grants, which were awarded at the market price at the date of the grant, have a ten-year term and vest 20% per year over five years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (i) expected dividend yield--0%; (ii) expected stock price volatility--24%; (iii) risk-free interest rate--6.4%; (iv) expected life of options--10 years.

During 1996 the Company also issued 72,499 restricted shares in accordance with the terms of the plan, which vest over a five-year period from the date of grant.

Notwithstanding anything in the Plan or any Award agreement to the contrary, generally no 1996 Award shall become exercisable or payable (even if vested) prior to the first anniversary of the date the Company is spun off by SFR, or during any such additional period, if any, as may be recommended by counsel to the Company as necessary or helpful to the tax-free status of the Spin Off.

In October 1995 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("FAS 123"), which established financial accounting and reporting standards for stock-based employee compensation plans. FAS 123 encourages companies to adopt a fair value based method of accounting for such plans but continues to allow the use of the intrinsic value method prescribed for Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"). The Company has elected to continue to account for stock-based compensation in accordance with APB 25. If the Company had elected to recognize compensation costs based on the fair value of options granted as prescribed by FAS 123, net income and the related per share amounts would have been unchanged.

During the initial phase-in period, the effects of applying FAS 123 for recognizing compensation cost on a pro forma basis may not be representative of the effects on reported earnings for future periods since the options granted vest over several periods and additional awards will be made in future periods.

(10) Pension and Other Employee Benefit Plans

Pension Plans

The Company sponsors a pension plan covering certain hourly-rated employees in California (the "Hourly Plan"). The Hourly Plan provides benefits that are based on a stated amount for each year of service. The Company annually contributes amounts which are actuarially determined to provide the Hourly Plan with sufficient assets to meet future benefit payment requirements.

The following table sets forth the funded status of the Hourly Plan at December 31, 1996 and 1995 (in millions of dollars):

	1996	1995
Plan assets at fair value, primarily invested in fixed-rate securities.....	9.5	8.7
Actuarial present value of projected benefit obligations		
Accumulated benefit obligations		
Vested.....	(10.9)	(10.4)
Nonvested.....	(0.4)	(0.4)
Excess of projected benefit obligation over plan assets.....	(1.8)	(2.1)
Unrecognized net (gain) loss from past experience different from that assumed and effects of changes in assumptions.....	(0.4)	(0.3)
Unrecognized prior service cost.....	0.4	0.4
Unrecognized net obligation.....	1.0	1.2
Additional minimum liability.....	(1.1)	(1.3)
Accrued pension liability.....	(1.9)	(2.1)

Major assumptions at year-end		
Discount rate.....	7.50%	7.50%
Expected long-term rate of return on plan assets....	8.50%	8.50%

The following table sets forth the components of pension expense for the Hourly Plan for 1996, 1995 and 1994 (in millions of dollars):

	Year Ended December 31,		
	1996	1995	1994
Service cost.....	0.2	0.2	0.2
Interest cost.....	0.8	0.8	0.8
Return on plan assets.....	(0.9)	(1.4)	(0.4)
Net amortization and deferral....	0.4	0.9	--
	0.5	0.5	0.6

The Company's salaried personnel participate in the SFR defined benefit retirement plan (the "SFR Plan") and a nonqualified supplemental retirement plan (the "Supplemental Plan"). The Supplemental Plan will pay benefits to participants in the SFR Plan in those instances where the SFR Plan formula produces a benefit in excess of limits established by ERISA and the Tax Reform Act of 1986. Benefits payable under the SFR Plan are based on years of service and compensation during the five highest paid years of service during the ten years immediately preceding retirement. SFR's funding policy is to contribute annually not less than the minimum required by ERISA and not more than the maximum amount deductible for income tax purposes. The Company has been allocated its proportionate share of the expense associated with such plans. The Company's share of such expenses totaled $0.4 million, $0.2 million and $0.2 million in 1996, 1995, and 1994 respectively.

Postretirement Benefits Other than Pensions

SFR provides healthcare and life insurance benefits for substantially all employees who retire under the provisions of a SFR-sponsored retirement plan and their dependents. Participation in the plans is voluntary and requires a monthly contribution by the employee. Effective January 1, 1993 SFR adopted the provisions of SFAS No. 106--"Employers' Accounting for Postretirement Benefits Other Than Pensions." The Statement requires the accrual, during the years the employee renders service, of the expected cost of providing postretirement benefits to the employee and the employee's beneficiaries and covered dependents. The Company has been allocated its proportionate share of SFR's expense with respect to such benefits. The Company's share of such expense totaled $0.2 million in 1996 and $0.1 million in each of 1995 and 1994.

Savings Plan

SFR has a savings plan available to substantially all salaried

employees and intended to qualify as a deferred compensation plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). SFR will match employee contributions for an amount up to 4% of each employee's base salary. In addition, if at the end of each fiscal year SFR's performance for such year has exceeded certain predetermined criteria, each participant will receive an additional matching contribution equal to 50% of the regular matching contribution. The Company has been allocated its proportionate share of contributions to the 401(k) Plan, which are charged to expense. The Company's share of such contributions totaled $0.3 million in 1996 and $0.2 million in each of 1995 and 1994.

(11) Commitments and Contingencies

Hedging

The Company's 1996 and 1995 financial statements include the impact of oil and gas hedging losses which were allocated by SFR. SFR from time to time enters into such transactions in order to reduce exposure to fluctuations in market prices of oil and natural gas. Oil hedging losses were allocated to the Company based upon relative production volumes and were recognized as a reduction of oil revenues in the period in which the hedged production was sold. Such amounts totaled $3.1 million and $0.1 million in 1996 and 1995, respectively. Currently the Company has no oil hedges in place and, going forward, the Company does not expect to hedge a substantial portion of its oil production.

Additionally, during the first six months of 1996, SFR hedged 20 MMcf per day of the natural gas purchased for use in the Company's steam generation operations. Such hedges, which terminated at the end of the second quarter, resulted in a $3.2 million increase in the Company's production and operating costs. While the Company currently has no natural gas hedges in place, the Company's management may determine that such arrangements are appropriate in the future in order to reduce the Company's exposure to increases in gas prices.

Spin Off Tax Indemnity Agreement

To protect SFR from Federal and state income taxes, penalties, interest and additions to tax that would be incurred by it if the Spin Off by SFR were determined to be a taxable event, the Company and SFR have entered into an agreement under which the Company has agreed to indemnify SFR with respect to tax liabilities resulting primarily from actions taken by the Company at any time during the one-year period after the Spin Off (or if certain tax legislation is enacted and is applicable to the Spin Off, such longer period as is required for the Spin Off to be tax free to SFR) (the "Restricted Period"). The Company has also agreed that, unless it obtains an opinion of counsel or a supplemental ruling from the Internal Revenue Service that such action will not adversely affect the qualification of the Spin Off as tax-free, the Company will not merge or consolidate with another corporation, liquidate or partially liquidate, sell or transfer all or substantially all of its assets or redeem or otherwise repurchase any of its stock or issue additional shares of the Company's capital stock during such Restricted Period. The Company's obligations under this agreement could possibly deter offers or other efforts by third parties to obtain control of the Company during such Restricted Period, which could deprive the Company's stockholders of opportunities to sell their shares of Common Stock at prices higher than prevailing market prices.

The indemnity agreement will apply if the Spin Off occurs prior to December 31, 1997. The Company believes that if the Company is required to make payments pursuant to such agreement, the amount that the Company would pay to SFR would have a material adverse effect on the Company's financial condition. The actions for which the Company is required to indemnify SFR pursuant to this agreement are within the Company's control, and the Company has no intention of taking any actions during the Restricted Period that would have such effect.

Environmental Regulation

Federal, state and local laws and regulations relating to environmental quality control affect the Company in all of its oil and gas operations. Set forth below are descriptions of three sites for which the Company has been identified as a potentially responsible party ("PRP") and for which the Company may be held jointly and severally liable with other PRPs.

The Company has been identified as one of over 250 PRPs at a Superfund site in Los Angeles County, California (the "OII site"). The site was operated by a third party as a waste disposal facility from 1948 until 1983. The Environmental Protection Agency ("EPA") is requiring the PRPs to undertake remediation of the site in several phases, which include site monitoring and leachate control, gas control and final remediation. In November 1988 the EPA and a group of PRPs that includes the Company entered into a consent decree covering the site monitoring and leachate control phases of remediation. The Company was a member of the group Coalition Undertaking Remediation Efforts ("CURE") which was responsible for constructing and operating the leachate treatment plant. This phase is now complete and the Company's share of costs with respect to this phase was $1.6 million ($0.9 million after recoveries from working interest participants in the unit in which the wastes were generated). Another consent decree provides for the predesign, design and construction of a gas plant to harness and market methane gas emissions. The Company is a member of the New CURE group which is responsible for the gas plant construction and operation and landfill cover. Currently, New CURE is in the design stage of the gas plant. The Company's share of costs of this phase is expected to be $1.9 million and such costs have been provided for in the financial statements. Pursuant to consent decrees settling lawsuits against the municipalities and transporters not named by the EPA as PRPs, such parties are required to pay approximately $84 million of which approximately $76 million will be credited against future

expenses. The EPA and the PRPs are currently negotiating the final closure requirements. After taking into consideration the credits from the municipalities and transporters, the Company estimates that its share of final costs of the closure will be approximately $0.8 million which amount has been provided for by the Company in its financial statements. The Company has entered into a Joint Defense Agreement with the other PRPs to defend against a lawsuit filed in September 1994 by ninety-five homeowners alleging, among other things, nuisance, trespass, strict liability and infliction of emotional distress. A second lawsuit has been filed by thirty-three additional homeowners and the Company and the other PRPs have entered into a Joint Defense Agreement. At this stage of the lawsuit the Company is not able to estimate costs or potential liability.

In 1994 the Company received a request from the EPA for information pursuant to Section 104(e) of CERCLA and a letter ordering the Company and seven other PRPs to negotiate with the EPA regarding implementation of a remedial plan for a site located in Santa Fe Springs, California (the "Santa Fe Springs Site"). The Company owned the property on which the site is located from 1921 to 1932. During that time the property was leased to another company and in 1932 the property was sold to that company. During the time the other company leased or owned the property and for a period thereafter, hazardous wastes were allegedly disposed at the site. Total past and future costs for remediation are estimated to be approximately $8.0 million. The Company filed its response to the Section 104(e) order setting forth its position and defenses based on the fact that the other company was the lessee and operator of the site during the time the Company was the owner of the property. However, the Company has also given its Notice of Intent to comply with the EPA's order to prepare a remediation design plan. The PRPs estimate total cost to complete this final remediation to be $3 million and the Company has provided $250,000 for such costs in its financial statements.

In 1995 the Company and twelve other companies received notice that they have been identified as PRPs by the California Department of Toxic Substances Control (the "DTSC") as having generated and/or transported hazardous waste to the Environmental Protection Corporation ("EPC") Eastside Landfill during its fourteen-year operation from 1971 to 1985 (the "Eastside Site"). EPC has since liquidated all assets and placed the proceeds in trust (the "EPC Trust") for closure and post-closure activities. However, these monies may not be sufficient to close the site. The PRPs have entered into an enforceable agreement with the DTSC to characterize the contamination at the site and prepare a focused remedial investigation and feasibility study. The DTSC has agreed to implement reasonable measures to bring new PRPs into the agreement. The DTSC will address subsequent phases of the cleanup, including remedial design and implementation in a separate order agreement. The cost of the remedial investigation and feasibility study is estimated to be $0.8 million, the cost of which will be shared by the PRPs and the EPC Trust. The ultimate costs of subsequent phases will not be known until the remedial investigation and feasibility study is completed and a remediation plan is accepted by the DTSC. The Company currently estimates final remediation could cost $2 million to $6 million and believes the monies in the EPC Trust will be sufficient to fund the lower end of this range of costs. The Company has provided $80,000 in its financial statements for its share of costs related to this site.

Pursuant to the Contribution Agreement, the Company agreed to indemnify and hold harmless SFR from and against any costs incurred in the future relating to environmental liabilities of the Western Division assets (other than the assets retained by SFR), including any costs or expenses incurred at any of the OII Site, the Santa Fe Springs Site and the Eastside Site, and any costs or liabilities that may arise in the future that are attributable to laws, rules or regulations in respect of any property or interest therein located in California and formerly owned or operated by the Western Division or its predecessors. SFR agreed to indemnify the Company from and against any costs relating to environmental liabilities of any assets or operations of SFR (whether or not currently owned or operated by SFR) to the extent not attributable to the Western Division (other than the assets retained by SFR).

Employment Agreements

The Company has entered into employment agreements ("Employment Agreements") with eight key employees. The initial term of seven of the agreements expire on December 31, 1998; however, beginning January 1, 1998 and on each January 1 thereafter the term of the agreements will automatically be extended for additional one-year periods, unless by September 30 of the preceding year the Company gives notice that the agreement will not be so extended. The term of each is automatically extended for a period of two years following a Change in Control (as defined herein). The other employment agreement has an initial term which expires on December 31, 1999, is automatically extended for one-year periods beginning January 1, 1999 and is automatically extended for a three-year period following a Change in Control.

In the event that following a change in control employment is terminated for reasons specified in the Employment Agreements, the agreements provide for (i) payment of certain amounts to the employee based on the employee's salary and bonus under the Company's Incentive Compensation Plan; (ii) payout of nonvested restricted stock, phantom units, stock options, if any, and (iii) continuation of certain insurance benefits for a period of up to 24 to 36 months. The payments and benefits are payable pursuant to the Employment Agreements only to the extent they are not paid out under the terms of any other plan of the Company. In addition, payments and benefits under certain employment agreements are subject to further limitation based on certain provisions of the Internal Revenue Code.

Operating Leases

The Company has noncancellable agreements with terms ranging from one to six years to lease office space and equipment. Minimum rental

payments due under the terms of these agreements are: 1997--$1.7 million, 1998--$1.5 million, 1999--$1.4 million, 2000--$1.2 million, 2001--$1.2 million and $5.5 million thereafter. Rental payments made under the terms of noncancellable agreements totaled $1.3 million in 1996, $0.8 million in 1995 and $0.9 million in 1994.

Other Matters

The Company has certain long-term contracts ranging up to eleven years for the supply and transportation of approximately 20 million cubic feet per day of natural gas to the Company's operations in Kern County, California. In the aggregate, these contracts involve a minimum commitment on the part of the Company of approximately $18.6 million per year (based on prices equal to 102% of the applicable index and transportation charges in effect for December 1996).

There are other claims and actions, including certain other environmental matters, pending against the Company. While the outcome of lawsuits or other proceedings against the Company cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the business, financial condition or liquidity of the Company.

(12) Income Taxes

Monterey is included in the consolidated tax returns of SFR, and pursuant to the Tax Allocation Agreement, the Company pays to SFR an amount approximating the federal, state and local tax liability it would have paid if it was an unaffiliated company. Accordingly, the amounts reflected in the financial statements, for all periods presented, have been prepared as if Monterey was not a member of SFR's consolidated group.

During 1995 SFR elected for federal income tax purposes to capitalize, rather than expense, intangible drilling costs attributable to the Company's operations (which aggregated $23 million and $22 million in 1996 and 1995, respectively). Current federal tax expense includes $5.8 million and $7.0 million in 1996 and 1995, respectively, as a result of such election. After the Company ceases to be a member of SFR's consolidated group, it intends to elect to expense such costs thereafter incurred.

The Company's income tax expense for the years ended December 31, 1996, 1995 and 1994 is presented below. Such amounts for 1996 include a current and deferred tax benefit of $2.2 million and $0.1 million, respectively, related to the Company's extraordinary debt extinguishment costs.

	1996	1995	1994
Current			
U.S. federal.....	15.7	5.0	--
State.....	6.1	3.3	--
	21.8	8.3	--
Deferred			
U.S. federal.....	3.7	6.4	3.0
State.....	0.4	1.3	1.7
	4.1	7.7	4.7
	25.9	16.0	4.7

The Company's deferred income tax liabilities (assets) at December 31, 1996 and 1995 are composed of the following differences between financial and tax reporting (in millions of dollars):

	1996	1995
Capitalized costs and write-offs.....	40.8	72.4
State deferred liability.....	10.1	17.0
Gross deferred liabilities.....	50.9	89.4
Accruals not currently deductible for tax purposes...	(5.8)	(7.3)
EOR credit carryforwards.....	(1.9)	(4.6)
AMT credit carryforwards.....	--	(2.8)
Gross deferred assets.....	(7.7)	(14.7)
Deferred tax liability.....	43.2	74.7

A reconciliation of the Company's U.S. income tax expense computed by applying the statutory U.S. federal income tax rate to the Company's income before income taxes for the years ended December 31, 1996, 1995 and 1994 is presented in the following table (in millions of dollars):

	1996	1995	1994
U.S. federal income taxes at statutory rate.	26.7	17.6	5.7
Increase (reduction) resulting from:			
State income taxes, net of federal effect..	4.2	3.0	1.1
Enhanced oil recovery credit.....	(5.2)	(4.2)	(2.5)
Permanent differences.....	0.2	(0.2)	(0.2)
Other.....	--	(0.2)	0.6

25.9	16.0	4.7

MONTEREY RESOURCES, INC.
SUPPLEMENTAL INFORMATION
TO FINANCIAL STATEMENTS (UNAUDITED)

Oil and Gas Reserves and Related Financial Data

Information with respect to the Company's oil and gas producing activities, all of which are located in the United States, is presented in the following tables. Reserve quantities as well as certain information regarding future production and discounted cash flows were determined by independent petroleum consultants, Ryder Scott Company.

Oil and Gas Reserves

The following table sets forth the Company's net proved oil and gas reserves at December 31, 1996, 1995, 1994 and 1993 and the changes in net proved oil and gas reserves for the years ended December 31, 1996, 1995 and 1994.

	Crude Oil and Liquids (MMBBLS)	Natural Gas (BCF)
Proved reserves at December 31, 1993.....	183.6	11.8
Revisions of previous estimates.....	9.9	2.9
Improved recovery techniques.....	12.6	--
Purchases of minerals-in-place.....	0.2	0.1
Production.....	(15.1)	(1.4)
Proved reserves at December 31, 1994.....	191.2	13.4
Revisions of previous estimates.....	9.7	0.9
Improved recovery techniques.....	13.7	--
Purchases of minerals-in-place.....	0.1	--
Production.....	(15.2)	(1.9)
Proved reserves at December 31, 1995.....	199.5	12.4
Revisions of previous estimates.....	12.0	1.1
Improved recovery techniques.....	14.4	--
Purchases of minerals-in-place.....	7.6	--
Production.....	(17.1)	(1.3)
Proved reserves at December 31, 1996.....	216.4	12.2
Proved developed reserves at December 31:		
1996.....	171.0	9.5
1995.....	157.1	9.2
1994.....	140.2	9.4
1993.....	140.8	9.0

Proved reserves are estimated quantities of crude oil and natural gas which geological and engineering data indicate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserves which can be expected to be recovered through existing wells with existing equipment and operating methods.

Estimated Present Value of Future Net Cash Flows

Estimated future net cash flows from the Company's proved oil and gas reserves at December 31, 1996, 1995 and 1994 are presented in the following table (in millions of dollars, except as noted):

	1996	1995	1994
Future cash inflows.....	4,169.3	2,763.0	2,428.5
Future production costs.....	(2,178.0)	(1,383.6)	(1,219.9)
Future development costs.....	(170.6)	(170.0)	(167.9)
Future income tax expenses.....	(638.4)	(421.5)	(352.7)
Net future cash flows.....	1,182.3	787.9	688.0
Discount at 10% for timing of cash flows.....	(501.6)	(361.5)	(321.9)
Present value of future net cash flows from proved reserves (standardized measure).....	680.7	426.4	366.1
Present value of pretax future net cash flows from proved reserves.....	1,047.8	654.4	553.8
Average sales prices			
Oil ($/Barrel).....	19.19	13.78	12.62
Natural gas ($/Mcf).....	1.38	0.98	1.07

The following table sets forth the changes in the present value of estimated future net cash flows from proved reserves during 1996, 1995 and 1994 (in millions of dollars):

	1996	1995	1994
Balance at beginning of year	426.4	366.1	143.0
Increase (decrease) due to:			
Sales of oil and gas, net of production costs	(155.9)	(119.2)	(85.0)
Net changes in prices and production costs	265.8	89.9	405.3
Extensions, discoveries and improved recovery	66.6	39.6	25.6
Purchases of minerals-in-place	40.8	0.8	0.6
Sales of minerals-in-place	(0.4)	--	--
Development costs incurred	50.5	49.1	22.7
Changes in estimated volumes	79.8	8.8	20.1
Changes in estimated development costs	(20.8)	(24.8)	(22.7)
Interest factor--accretion of discount	66.9	56.5	20.0
Income taxes	(139.0)	(40.4)	(163.5)
	254.3	60.3	223.1
	680.7	426.4	366.1

Estimated future cash flows represent an estimate of future net cash flows from the production of proved reserves using estimated sales prices and estimates of the production costs, ad valorem and production taxes, and future development costs necessary to produce such reserves. No deduction has been made for depletion, depreciation or any indirect costs such as general corporate overhead or interest expense.

The sales prices used in the calculation of estimated future net cash flows are based on the prices in effect at year end. Such prices have been held constant except for known and determinable escalations.

Operating costs and ad valorem and production taxes are estimated based on current costs with respect to producing oil and gas properties. Future development costs are based on the best estimate of such costs assuming current economic and operating conditions.

Income tax expense is computed based on applying the appropriate statutory tax rate to the excess of future cash inflows less future production and development costs over the current tax basis of the properties involved. While applicable investment tax credits and other permanent differences are considered in computing taxes, no recognition is given to tax benefits applicable to future exploration costs or the activities of the Company that are unrelated to oil and gas producing activities.

The information presented with respect to estimated future net revenues and cash flows and the present value thereof is not intended to represent the fair value of oil and gas reserves. Actual future sales prices and production and development costs may vary significantly from those in effect at year-end and actual future production may not occur in the periods or amounts projected. This information is presented to allow a reasonable comparison of reserve values prepared using standardized measurement criteria and should be used only for that purpose.

Costs Incurred in Oil and Gas Producing Activities

The following table includes all costs incurred, whether capitalized or charged to expense at the time incurred (in millions of dollars):

	1996	1995	1994
Property acquisition costs			
Unproved	0.1	0.1	--
Proved	3.4	1.3	--
Exploration costs	1.6	2.5	1.4
Development costs	47.1	47.8	22.7
	52.2	51.7	24.1

Capitalized Costs Related to Oil and Gas Producing Activities

The following table sets forth information concerning capitalized costs at December 31, 1996 and 1995 related to the Company's oil and gas operations (in millions of dollars):

	1996	1995
Oil and gas properties		
Unproved	0.4	0.4
Proved	1,006.2	960.7
Other	9.6	9.7
Accumulated amortization of unproved properties	(0.2)	(0.1)
Accumulated depletion and depreciation of proved properties	(643.3)	(614.8)
Accumulated depreciation of other oil and gas properties	(3.5)	(3.4)

	369.2	352.5

Results of Operations from Oil and Gas Producing Activities

The following table sets forth the Company's results of operations from oil and gas producing activities for the years ended December 31, 1996, 1995 and 1994 (in millions of dollars):

	1996	1995	1994
Revenues	292.9	218.7	191.9
Production costs:			
Production and operating costs	(107.8)	(86.1)	(87.4)
Taxes (other than income)	(8.2)	(6.8)	(7.6)
Cost of crude oil purchases	(20.8)	(6.5)	(11.7)
Exploration, including dry hole costs	(1.7)	(2.4)	(1.4)
Depletion, depreciation and amortization	(36.1)	(31.1)	(31.1)
Restructuring charges	--	--	(1.1)
Gain (loss) on disposition of properties	--	--	0.3
	118.3	85.8	51.9
Income taxes	(48.4)	(35.1)	(21.2)
	69.9	50.7	30.7

Income taxes are computed by applying the appropriate statutory rate to the results of operations before income taxes. Applicable tax credits and allowances related to oil and gas producing activities have been taken into account in computing income tax expenses. No deduction has been made for indirect cost such as corporate overhead or interest expense.

Summarized Quarterly Financial Data

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
	(in millions of dollars, except as noted)				
1996					
Revenues	59.7	68.4	76.9	87.9	292.9
Gross profit (a)	24.4	30.2	26.3	34.9	115.8
Income from operations	22.5	28.2	24.4	31.8	106.9
Income before extraordinary items	10.3	13.9	11.7	18.9	54.8
Extraordinary items	--	--	--	(4.5)	(4.5)
Net income	10.3	13.9	11.7	14.4	50.3
Pro forma per share data (b)					
Income before extraordinary items	0.19	0.26	0.21	0.34	1.00
Extraordinary items	--	--	--	(0.08)	(0.08)
Net income	0.19	0.26	0.21	0.26	0.92
Number of shares used in computing per share amounts (in millions)	54.8	54.8	54.8	54.8	54.8
1995					
Revenues	51.0	57.2	56.8	53.7	218.7
Gross profit (a)	15.8	24.9	23.1	19.6	83.4
Income from operations	13.8	23.2	21.3	17.8	76.1
Net income	7.5	9.1	9.8	8.0	34.4
Pro forma net income per share (b)	0.14	0.17	0.18	0.14	0.63
Number of shares used in computing per share amounts (in millions)	54.8	54.8	54.8	54.8	54.8

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(a) Revenues less operating expenses other than general and administrative.

(b) Common shares outstanding at November 19, 1996, the closing date of the Company's IPO, have been included in the pro forma per share calculations as if such shares were outstanding for all periods prior to November 19, 1996.

MONTEREY RESOURCES, INC.
STATEMENT OF OPERATIONS (UNAUDITED)
(in millions of dollars, except per share data)

	Six Months Ended June 30,	
	1997	1996
Revenues		
Sales of crude oil and liquids produced	$ 138.6	$ 125.7

Sales of natural gas produced	0.6	0.7
Sales of crude oil purchased	19.9	1.2
Other	0.4	0.5
	159.5	128.1
Costs and Expenses		
Production and operating	60.7	49.0
Cost of crude oil purchased	21.4	1.2
Exploration, including dry hole costs	0.8	0.9
Depletion, depreciation and amortization	19.0	18.1
General and administrative	6.5	3.9
Taxes (other than income)	6.0	4.3
	114.4	77.4
Income from Operations	45.1	50.7
Interest income	0.8	--
Interest expense	(9.6)	(12.9)
Interest capitalized	0.7	0.4
Income Before Income Taxes	37.0	38.2
Income taxes	(12.0)	(13.9)
Net Income	$ 25.0	$ 24.3
Net Income Per Share	$ 0.46	$ --
Pro Forma Net Income Per Share	$ --	$ 0.44
Number of shares used in computing net income per share (in millions)	54.8	54.8

The accompanying Notes are an integral part of these financial statements.

MONTEREY RESOURCES, INC.
BALANCE SHEET
(in millions of dollars)

	June 30, 1997 (Unaudited)	December 31, 1996
ASSETS		
Current Assets		
Cash and cash equivalents	$ 14.4	$ 9.3
Accounts receivable	40.5	46.4
Inventories	1.4	1.7
Other current assets	10.6	9.3
	66.9	66.7
Properties and Equipment, at cost		
Oil and gas (on the basis of successful efforts accounting)	1,053.7	1,016.1
Other	15.7	14.2
	1,069.4	1,030.3
Accumulated depletion, depreciation and amortization	(670.3)	(651.3)
	399.1	379.0
Other Assets	1.5	1.5
	$ 467.5	$ 447.2
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 38.6	$ 34.2
Dividends payable	8.2	--
Interest payable	4.7	4.7
Taxes payable	--	5.8
Accrued employee benefits	1.1	1.1
Other current liabilities	2.8	3.0
	55.4	48.8
Long-Term Debt	185.0	175.0
Other Long-Term Obligations	3.8	3.5
Deferred Income Taxes	41.6	43.2
Commitments and Contingencies (Note 5)	--	--
Shareholders' Equity		
Preferred stock	--	--
Common stock	0.5	0.5
Paid-in capital	171.0	170.8
Unamortized restricted stock awards	(1.0)	(1.0)

Retained earnings	11.2	6.4
	181.7	176.7
	$ 467.5	$ 447.2

The accompanying Notes are an integral part of these financial statements.

MONTEREY RESOURCES, INC.
STATEMENT OF CASH FLOWS (UNAUDITED)
(in millions of dollars)

	Six Months Ended June 30, 1997	1996
Operating Activities:		
Net income	$ 25.0	$ 24.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	19.0	18.1
Deferred income taxes	(1.7)	5.5
Other	0.5	0.2
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	5.9	(9.0)
Decrease (increase) in other current assets	0.4	(0.2)
Increase (decrease) in accounts payable	6.1	6.9
Increase (decrease) in interest payable	--	--
Increase (decrease) in other current liabilities	(5.8)	--
Net change in other assets and liabilities	(1.4)	1.8
Net Cash Provided by Operating Activities.	48.0	47.6
Investing Activities:		
Capital expenditures	(38.7)	(26.8)
Acquisition of producing properties	(2.2)	(2.6)
Net Cash Used in Investing Activities	(40.9)	(29.4)
Financing Activities:		
Net change in line of credit	10.0	--
Dividends	(12.0)	--
Dividends to Parent	--	(18.2)
Net Cash Used in Financing Activities	(2.0)	(18.2)
Net (Decrease) Increase in Cash and Cash Equivalents	5.1	--
Cash and Cash Equivalents at Beginning of Period	9.3	--
Cash and Cash Equivalents at End of Period.	$ 14.4	$ --

The accompanying Notes are an integral part of these financial statements.

MONTEREY RESOURCES, INC.
STATEMENT OF DIVISION EQUITY AND SHAREHOLDERS' EQUITY (UNAUDITED)
(Shares and Dollars in millions)

	Division Equity	Common Stock Shares	Common Stock Amount	Paid-In Capital	Unamortized Restricted Stock Awards	Retained Earnings	Total Division Equity and Shareholder's Equity
Balance at December 31, 1995	$ 45.0	--	$ --	$ --	$ --	$ --	$ 45.0
Net income	24.3	--	--	--	--	--	24.3
Dividends to parent	(18.2)	--	--	--	--	--	(18.2)
Balance at June 30, 1996.	$ 51.1	--	$ --	$ --	$ --	$ --	$ 51.1
Balance at December 31, 1996	$ --	54.8	$ 0.5	$170.8	$ (1.0)	$ 6.4	$ 176.7
Net income	--	--	--	--	--	25.0	25.0
Dividends declared	--	--	--	--	--	(20.2)	(20.2)
Employee stock compensation	--	--	--	0.2	--	--	0.2
Balance at June 30, 1997	$ --	54.8	$ 0.5	$171.0	$ (1.0)	$ 11.2	$ 181.7

MONTEREY RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

(1) Accounting Policies

Monterey Resources, Inc. (the "Company" or "Monterey") is an independent oil and gas company engaged in the production, development and acquisition of crude oil and natural gas in the State of California. The Company conducted its operations as the Western Division of Santa Fe Energy Resources, Inc. ("SFR") until the November 1996 initial public offering ("IPO") of its common stock. On June 9, 1997, the Company formed Monterey Acquisition Corporation ("MAC") for the purpose of acquiring McFarland Energy, Inc. ("McFarland"). MAC had no operations during the quarter ended June 30, 1997. As of June 30, 1997, SFR owned approximately 83% of the outstanding shares of Monterey's common stock.

The financial statements for the six months ended June 30, 1996 include proportional allocations from certain SFR income statement and balance sheet accounts, which are considered reasonable and necessary by management to properly reflect the actual costs of the Western Division's operations. The Western Division's results of operations include corporate overhead allocations as follows: (i) production and operating expense includes $1.3 million; (ii) exploration expense includes $0.2 million; (iii) general and administrative expense includes $4.5 million (before joint interest recoveries). If the Western Division had been a separate, unaffiliated entity, the Company estimates that general and administrative expense would have been higher by $0.8 million. SFR provided cash management services to the Western Division through a centralized treasury system and therefore all intercompany accounts were settled daily and no cash balances were maintained by the Western Division. All cash generated by operations, after considering revenues and deductions for expenses (including corporate allocations), capital expenditures and working capital requirements, were deemed to be cash dividends to SFR.

The accompanying unaudited financial statements of Monterey reflect, in the opinion of management, all adjustments, consisting only of normal and recurring adjustments and the allocations noted above, necessary to present fairly the Company's financial position at June 30, 1997 and the Company's results of operations and cash flows for the six-month periods ended June 30, 1997 and 1996. Interim period results are not necessarily indicative of the results of operations or cash flows for a full year period.

These financial statements and the notes thereto should be read in conjunction with the Company's audited financial statements for the year ended December 31, 1996 included elsewhere herein.

(2) Pro Forma Per Share Data

Common shares outstanding at November 19, 1996, the closing date of the Company's IPO, have been included in the pro forma per share calculations as if such shares were outstanding for all periods prior to November 19, 1996.

(3) Statement of Cash Flows

The Company made interest and income tax payments as follows during the six-month periods ended June 30, 1997 and 1996 (in millions of dollars):

	Six Months Ended June 30,	
	1997	1996
Interest payments.....	9.3	12.9
Income tax payments.....	20.7	--

(4) Subsequent Events

On July 24, 1997, the Company completed its acquisition of McFarland. MAC merged with and into McFarland, and as a consequence, McFarland is now a wholly owned subsidiary of the Company. The Company paid $18.55 per share for each of the 5,727,422 shares outstanding. McFarland's principal producing properties are located in the Midway-Sunset field adjacent to properties owned by the Company.

SFR's Spin Off of its interest in the Company was completed on July 25, 1997 with a tax-free distribution of its Monterey shares to SFR shareholders.

Pursuant to the terms of a letter agreement dated as of June 13, 1996, a fee is payable by the Company to Chase Securities Inc. and Petrie Parkman & Co., Inc. as a result of consummation of the Spin Off. The total amount of such fee is equal to the product of (a) the sum of the market value of the shares of the Company's common stock distributed in the Spin Off (based upon the average closing price of the Company's common stock during the ten trading days after the Spin Off) plus the aggregate principal amount of long-term indebtedness assumed by the Company in connection with the Spin Off (which totaled $175.0 million) times (b) 0.5%, less $1.0 million. The average market value of the Company's common stock for the ten trading days after the Spin Off was approximately $14.98 per share, yielding a total fee payable of approximately $3.3 million, of which half is payable to each of Chase Securities and Petrie Parkman. In addition, a fee of $200,000 was paid on July 25, 1997 to GKH Partners, L.P. One of the Company's directors is associated with GKH Partners.

On August 18, 1997 the Company and Texaco, Inc. ("Texaco") announced that they had signed a definitive merger agreement relating to a business combination of the Company with Texaco. Under the terms of the agreement, Texaco will exchange its common stock for all outstanding shares of the Company, which will be valued at $21.00 per share. The merger is subject to the approval of the shareholders of Monterey and regulatory agencies. Monterey's board of directors has agreed to recommend the merger to its shareholders.

(5) Commitments and Contingencies

Hedging

The Company's 1996 financial statements include the impact of oil and gas hedging losses which were allocated by SFR. SFR from time to time entered into such transactions in order to reduce exposure to fluctuations in market prices of oil and natural gas. Oil hedging losses were allocated to the Company based upon relative hedged volumes and were recognized as a reduction of oil revenues in the period in which the hedged production was sold. Such amounts totaled $2.5 million for the six-month period ended June 30, 1996. Currently the Company has no oil hedges in place and, going forward, the Company does not expect to hedge a substantial portion of its oil production.

Additionally, during the first six months of 1996, SFR hedged 20 MMcf per day of the natural gas purchased for use in the Company's steam generation operations. Such hedges resulted in a $3.2 million increase in the Company's production and operating costs for the six-month period ended June 30, 1996. While the Company currently has no natural gas hedges in place, the Company's management may determine that such arrangements are appropriate in the future in order to reduce the Company's exposure to increases in gas prices.

On June 17, 1997 the Company entered into an interest rate swap with a bank with a notional principal amount of $100 million. Under the terms of the swap, which is effective for the period July 21, 1997 through July 21, 2003, during any quarterly period at the beginning of which a floating rate specified in the agreement is less than 6.74%, the Company must pay the bank interest for such quarterly period on the principal amount at the difference between the rates. Should the floating rate be in excess of 6.74%, the bank must pay the Company interest for such quarterly period on the principal amount at the difference between the rates.

Spin Off Tax Indemnity Agreement

To protect SFR from Federal and state income taxes, penalties, interest and additions to tax that would be incurred by it if the Spin Off by SFR were determined to be a taxable event, the Company and SFR have entered into an agreement under which the Company has agreed to indemnify SFR with respect to tax liabilities resulting primarily from actions taken by the Company at any time during the one-year period after the Spin Off (or if certain tax legislation is enacted and is applicable to the Spin Off, such longer period as is required for the Spin Off to be tax free to SFR) (the "Restricted Period"). The Company has also agreed that, unless it obtains an opinion of counsel or a supplemental ruling from the Internal Revenue Service that such action will not adversely affect the qualification of the Spin Off as tax-free, the Company will not merge or consolidate with another corporation, liquidate or partially liquidate, sell or transfer all or substantially all of its assets or redeem or otherwise repurchase any of its stock or issue additional shares of the Company's capital stock during such Restricted Period. The Company's obligations under this agreement could possibly deter offers or other efforts by third parties to obtain control of the Company during such Restricted Period, which could deprive the Company's stockholders of opportunities to sell their shares of Common Stock at prices higher than prevailing market prices.

The Company believes that if the Company is required to make payments pursuant to such agreement, the amount that the Company would pay to SFR would have a material adverse effect on the Company's financial condition and results of operations. The actions for which the Company is required to indemnify SFR pursuant to this agreement are within the Company's control, and the Company has no intention of taking any actions during the Restricted Period that would have such effect.

Environmental Regulation

Federal, state and local laws and regulations relating to environmental quality control affect the Company in all of its oil and gas operations. Set forth below are descriptions of three sites for which the Company has been identified as a potentially responsible party ("PRP") and for which the Company may be held jointly and severally liable with other PRPs.

The Company has been identified as one of over 250 PRPs at a Superfund site in Los Angeles County, California (the "OII site"). The site was operated by a third party as a waste disposal facility from 1948 until 1983. The Environmental Protection Agency ("EPA") is requiring the PRPs to undertake remediation of the site in several phases, which include site monitoring and leachate control, gas control and final remediation. In November 1988 the EPA and a group of PRPs that includes the Company entered into a consent decree covering the site monitoring and leachate control phases of remediation. The Company was a member of the group Coalition Undertaking Remediation Efforts ("CURE") which was responsible for constructing and operating the leachate treatment plant. This phase is now complete and the Company's share of costs with respect to this phase was $0.9 million. Another consent decree provides for the predesign, design and construction of a landfill gas treatment system to harness and market methane gas emissions. The Company is a member of the New CURE group which is responsible for the gas treatment system construction and operation and landfill cover. Currently, New CURE is in the design stage of the gas treatment system. The Company's share

of costs of this phase is expected to be $1.6 million and such costs have been provided for in the financial statements. Pursuant to consent decrees settling lawsuits against the municipalities and transporters not named by the EPA as PRPs, such parties are required to pay approximately $84 million of which approximately $76 million will be credited against future expenses. The EPA and the PRPs are currently negotiating the final closure requirements. After taking into consideration the credits from the municipalities and transporters, the Company estimates that its share of final costs of the closure will be approximately $0.8 million which amount has been provided for by the Company in its financial statements. The Company has entered into a Joint Defense Agreement with the other PRPs to defend against a lawsuit filed in September 1994 by ninety-five homeowners alleging, among other things, nuisance, trespass, strict liability and infliction of emotional distress. A second lawsuit has been filed by thirty-three additional homeowners and the Company and the other PRPs have entered into a Joint Defense Agreement. At this stage of the lawsuit the Company is not able to estimate costs or potential liability.

In 1994 the Company received a request from the EPA for information pursuant to Section 104(e) of CERCLA and a letter ordering the Company and seven other PRPs to negotiate with the EPA regarding implementation of a remedial plan for a site located in Santa Fe Springs, California (the "Santa Fe Springs Site"). The Company owned the property on which the site is located from 1921 to 1932. During that time the property was leased to another company and in 1932 the property was sold to that company. During the time the other company leased or owned the property and for a period thereafter, hazardous wastes were allegedly disposed at the site. The Company filed its response to the Section 104(e) order setting forth its position and defenses based on the fact that the other company was the lessee and operator of the site during the time the Company was the owner of the property. However, the Company has also given its Notice of Intent to comply with the EPA's order to prepare a remediation design plan. In March, 1997 the EPA issued an Amended Order for Remedial Design to the original eight PRPs plus an additional thirteen PRPs. The Amended Order directs the twenty-one PRPs to complete certain work required under the original order, plus additional remedial design and investigative work. The total cost to complete this work and to complete the final remedy (including ongoing operations and maintenance) is currently estimated to be $5 million. Past costs incurred by the EPA for this site for which the EPA is seeking reimbursement totals approximately $6 million. The Company has provided $250,000 in its financial statements for its share of future costs at the Santa Fe Springs Site.

In 1995 the Company and eleven other companies received notice that they have been identified as PRPs by the California Department of Toxic Substances Control (the "DTSC") as having generated and/or transported hazardous waste to the Environmental Protection Corporation ("EPC") Eastside Landfill during its fourteen-year operation from 1971 to 1985 (the "Eastside Site"). EPC has since liquidated its assets and placed the proceeds in trust (the "EPC Trust") for closure and post-closure activities. However, these monies may not be sufficient to close the site. The PRPs have entered into an enforceable agreement with the DTSC to characterize the contamination at the site and prepare a focused remedial investigation and feasibility study. The cost of the remedial investigation and feasibility study is estimated to be $1 million, the cost of which will be shared by the PRPs and the EPC Trust. The ultimate costs of subsequent phases will not be known until the remedial investigation and feasibility study is completed and a remediation plan is accepted by the DTSC. The Company currently estimates final remediation could cost $2 million to $6 million and believes the monies in the EPC Trust will be sufficient to fund the lower end of this range of costs. The DTSC recently designated 27 new PRPs for the Eastside Site. The Company has provided $80,000 in its financial statements for its share of costs related to this site.

Pursuant to the Contribution Agreement, the Company agreed to indemnify and hold harmless SFR from and against any costs incurred in the future relating to environmental liabilities of the Western Division assets (other than the assets retained by SFR), including any costs or expenses incurred at any of the OII Site, the Santa Fe Springs Site and the Eastside Site, and any costs or liabilities that may arise in the future that are attributable to laws, rules or regulations in respect of any property or interest therein located in California and formerly owned or operated by the Western Division or its predecessors. SFR agreed to indemnify the Company from and against any costs relating to environmental liabilities of any assets or operations of SFR (whether or not currently owned or operated by SFR) to the extent not attributable to the Western Division (other than the assets retained by SFR).

Employment Agreements

The Company has entered into employment agreements ("Employment Agreements") with eight key employees. The initial term of seven of the agreements expire on December 31, 1998; however, beginning January 1, 1998 and on each January 1 thereafter the term of the agreements will automatically be extended for additional one-year periods, unless by September 30 of the preceding year the Company gives notice that the agreement will not be so extended. The term of each is automatically extended for a period of two years following a Change in Control (as defined herein). The other employment agreement has an initial term which expires on December 31, 1999, is automatically extended for one-year periods beginning January 1, 1999 and is automatically extended for a three-year period following a Change in Control.

In the event that following a change in control employment is terminated for reasons specified in the Employment Agreements, the agreements provide for (i) payment of certain amounts to the employee based on the employee's salary and bonus under the Company's Incentive Compensation Plan; (ii) payout of nonvested restricted stock, phantom units, stock options, if any, and (iii) continuation of certain insurance benefits for a period of up to 24 to 36 months. The payments and benefits are payable pursuant to the Employment Agreements only to the extent they are not paid out under the terms

of any other plan of the Company. In addition, payments and benefits under certain employment agreements are subject to further limitation based on certain provisions of the Internal Revenue Code.

Other Matters

The Company has certain long-term contracts ranging up to twelve years for the supply and transportation of approximately 20 million cubic feet per day of natural gas to the Company's operations in Kern County, California. In the aggregate, these contracts involve a minimum commitment on the part of the Company of approximately $12.2 million per year (based on prices equal to 102% of the applicable index and transportation charges in effect for June 1997).

On July 16, 1997 the Company was served with a petition (the "Complaint") filed by The Prudential Insurance Company of America ("Prudential") alleging breach of fiduciary duty, breach of contract, fraud, constructive fraud, and negligent misrepresentation. The Complaint relates to the alleged conduct of the Company's predecessor in interest, SFR, as the General Partner of the South Belridge Limited Partnership (the "Partnership"). Prudential is the sole limited partner in the Partnership. Prudential alleges that SFR failed to develop the Partnership's property in accordance with the Partnership Agreement. In November 1996, SFR's interest in the Partnership was assigned to the Company. The Company is in the process of investigating the allegations made by Prudential in its Complaint. Based on the information currently available to it, the Company believes that it has valid defenses to Prudential's claims and intends to vigorously defend this lawsuit.

On August 28, 1997, a shareholder of Monterey filed a purported class action complaint (the "Complaint") in the Delaware Court of Chancery, No. 15886-NC, seeking (i) to enjoin the Merger on terms proposed and (ii) damages. Defendants named in the Complaint are Monterey and each of its directors. The plaintiff alleges numerous breaches of the duties of care and loyalty owed by the defendants to the purported class in connection with entering into the Merger Agreement with Texaco. The defendants believe the Complaint is without merit and intend to vigorously defend the action.

There are other claims and actions, including certain other environmental matters, pending against the Company. While the outcome of lawsuits or other proceedings against the Company cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the business, financial condition or liquidity of the Company.

(5) Shareholder Rights Plan

On July 16, 1997, the Company adopted a shareholder rights plan pursuant to which preferred stock purchase rights were distributed for each share of Common Stock held as of the close of business on July 25, 1997. The plan was adopted in accordance with the Company's contractual obligations to SFR as part of the planned Spin Off of SFR's ownership in Monterey to SFR shareholders. The Rights will expire on August 31, 1999.

Each Right will entitle shareholders to buy one one-hundredth (1/100) of a share of a new series of Junior Preferred Stock of the Company for each share owned of the Company's Common Stock at an exercise price of $45 per one one-hundredth of a share. The Rights will be exercisable only if a person acquires beneficial ownership of 15% or more of Monterey's outstanding Common Stock or commences a tender or exchange offer upon consummation of which such person would beneficially own 15% or more of the Company's outstanding Common Stock.

If any person acquires beneficial ownership of 15% or more of Monterey's Common Stock (an "Acquiring Person"), then each Right not owned by such person or certain related parties will entitle its holders to purchase, at the Right's then-current exercise price, shares of Monterey's Common Stock having a value equal to twice the Right's then-current exercise price. In addition, if after a person has become an Acquiring Person, Monterey is involved in a merger of other business combination transaction with another person in which the Company is not the surviving entity or its Common Stock is exchanged or converted, or the Company sells 50% or more of its assets or earning power to another person, each Right will entitle its holder to purchase, at the Right's then-current exercise price, shares of common stock of such other person (or the principal party to such transaction) having a value equal to twice the Right's then-current exercise price.

Monterey will generally be entitled to redeem the Rights in whole, but not in part, at $0.01 per Right payable in cash or Common Stock, subject to adjustment, at any time until 10 days after the first public announcement that an Acquiring Person has become such.

MONTEREY RESOURCES, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in millions of dollars, except as noted)

	Six Months Ended June 30, 1997			
	Monterey Historical	McFarland Historical(1)	Pro Forma Adjustments	Monterey Pro Forma
Revenues				
Crude oil and liquids produced	$ 138.6	$ 10.0	$ --	$ 148.6
Natural gas produced	0.6	2.6	--	3.2
Crude oil purchased	19.9	--	--	19.9

Other	0.4	--	--	0.4
	159.5	12.6	--	172.1
Costs and Expenses				
Production and operating	60.7	5.2	--	65.9
Cost of crude oil purchased	21.4	--	--	21.4
Exploration, including dry hole costs	0.8	0.3	--	1.1
Depletion, depreciation and amortization	19.0	2.3	(2.2) (2) 5.6 (3)	24.7
General and administrative	6.5	1.7	--	8.2
Taxes (other than income)	6.0	0.4	--	6.4
Loss (gain) on disposition or assets	--	(0.1)	--	(0.1)
	114.4	9.8	3.4	127.6
Income (Loss) from Operations	45.1	2.8	(3.4)	44.5
Interest, net	(8.1)	0.2	(3.8) (4)	(11.7)
Income (Loss) Before Income Taxes	37.0	3.0	(7.2)	32.8
Income taxes	(12.0)	(0.8)	0.8 (2) 1.4 (5)	(10.6)
Net Income (Loss)	$ 25.0	$ 2.2	$ (5.0)	$ 22.2
Per Share Data (in dollars)				
Net income	$ 0.46	$ 0.39		$ 0.41
Weighted average shares outstanding (in millions)	54.8	5.7		54.8

The accompanying notes are an integral part of these pro forma condensed consolidated financial statements.

MONTEREY RESOURCES, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
(in millions of dollars)

	As of June 30, 1997			
	Monterey Historical	McFarland Historical(1)	Pro Forma Adjustments	Pro Forma
ASSETS				
Current Assets				
Cash and cash equivalents	$ 14.4	$ 9.2	$100.0 (2) (102.8)(3)	$ 20.8
Accounts receivable	40.5	3.9	--	44.4
Other current assets	12.0	0.5	--	12.5
	66.9	13.6	(2.8)	77.7
Properties and Equipment, at cost				
Oil and gas (successful efforts accounting)	1,053.7	89.9	135.2 (3) (99.2)(4) 7.9 (5)	1,187.5
Other	15.7	3.5	1.5 (3)	20.7
	1,069.4	93.4	45.4	1,208.2
Accumulated depletion, depreciation, amortization and impairment	(670.3)	(54.7)	54.7 (4)	(670.3)
	399.1	38.7	100.1	537.9
Other Assets	1.5	0.4	(0.4)(4)	1.5
	$ 467.5	$ 52.7	$ 96.9	$ 617.1
LIABILITIES & SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	$ 38.6	$ 3.5	$ 3.4 (3) 7.9 (5)	$ 53.4
Dividends payable	8.2	--	--	8.2
Interest payable	4.7	--	--	4.7
Other current liabilities	3.9	0.4	--	4.3
	55.4	3.9	11.3	70.6
Long-term Debt	185.0	2.3	100.0 (2)	287.3
Long-Term Obligations	3.8	1.6	--	5.4
Deferred Income Taxes	41.6	--	30.5 (3)	72.1
Shareholders' Equity				
Common stock	0.5	5.7	(5.7)(4)	0.5
Paid-in capital	171.0	21.6	(21.6)(4)	171.0

Unamortized restricted stock awards.....	(1.0)	--	--	(1.0)
Retained earnings.....	11.2	17.6	(17.6)(4)	11.2
	181.7	44.9	(44.9)	181.7
	$ 467.5	$ 52.7	$ 96.9	$ 617.1

The accompanying notes are an integral part of these pro forma condensed consolidated financial statements.

MONTEREY RESOURCES, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in millions of dollars, except as noted)

	Year Ended December 31, 1996			
	Monterey Historical(1)	McFarland Historical(2)	Pro Forma Adjustments	Monterey Pro Forma
Revenues				
Crude oil and liquids produced.....	$ 269.9	$ 20.8	$ --	$ 290.7
Natural gas produced.....	1.3	3.7	--	5.0
Crude oil purchased.....	21.1	--	--	21.1
Other.....	0.6	0.1	--	0.7
	292.9	24.6	--	317.5
Costs and Expenses				
Production and operating.....	107.8	7.1	--	114.9
Cost of crude oil purchased.....	20.8	--	--	20.8
Exploration, including dry hole costs.....	1.7	1.0	--	2.7
Depletion, depreciation and amortization.....	37.4	4.8	(4.2)(3) 11.4 (4)	49.4
General and administrative.....	8.9	2.8	--	11.7
Taxes (other than income).....	9.4	0.6	--	10.0
Loss (gain) on disposition or assets	--	(0.7)	--	(0.7)
	186.0	15.6	7.2	208.8
Income (Loss) from Operations.....	106.9	9.0	(7.2)	108.7
Interest, net.....	(23.8)	0.2	(6.7)(5)	(30.3)
Other income (expense).....	--	(0.1)	--	(0.1)
Income (Loss) Before Income Taxes.....	83.1	9.1	(13.9) 1.9 (3)	78.3
Income taxes.....	(28.3)	(1.9)	2.1 (5)	(26.2)
Income (Loss) From Continuing Operations.....	$ 54.8	$ 7.2	$ (9.9)	$ 52.1
Per Share Data (in dollars)				
Earnings (Loss) from continuing operations...	$ 1.00	$ 1.26		$ 0.95
Shares Used in Computing Per Share Amounts (in millions).....	54.8	5.7		54.8

The accompanying notes are an integral part of these pro forma condensed consolidated financial statements.

MONTEREY RESOURCES, INC.
NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(a) Basis of Presentation

The unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 1997 and the year ended December 31, 1996 and the unaudited pro forma condensed consolidated balance sheet at June 30, 1997 (collectively the "Pro Forma Financial Statements") have been prepared from the historical financial statements of Monterey Resources, Inc. ("Monterey") and McFarland Energy, Inc. ("McFarland"). The unaudited pro forma consolidated statements of operations for the six months ended June 30, 1997 and the year ended December 31, 1996 have been prepared to reflect the acquisition of McFarland by Monterey (the "Acquisition") and the related transactions described herein as is such transactions had occurred as of January 1, 1996 and the unaudited pro forma condensed consolidated balance has been prepared as if such transactions had occurred as of June 30, 1997. The Acquisition has been accounted for in the Pro Forma Financial Statements using the purchase method of accounting. Accordingly, the unaudited pro forma condensed consolidated balance reflects the recording of the assets acquired and liabilities assumed of McFarland at estimated fair value.

The Pro Forma Financial Statements are not necessarily indicative of the current or future financial position or results of Monterey and such statements should be read in conjunction with the historical financial statements included in Monterey's and McFarland's Form 10-K for the year ended December 31, 1996 and Monterey's Form 10-Q for the quarter ended June 30, 1997. The pro forma adjustments are based on currently available information and contain estimates and assumptions. Management believes that

the estimates and assumptions provide a reasonable basis for presenting the significant effects of the transactions and that the pro forma adjustments give appropriate effect to these estimates and assumptions and are properly applied in the Pro Forma Financial Statements.

(b) Pro Forma Adjustments

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended June 30, 1997

(1) Certain amount included in McFarland's historical financial statements have been reclassified to conform to Monterey's presentation.

(2) To reverse McFarland's historical depletion, depreciation and amortization and income taxes.

(3) To reflect depletion, depreciation and amortization for the McFarland properties on the basis assigned under purchase accounting.

(4) To reflect interest expense on $100.0 million of borrowing related to the Acquisition.

(5) To adjust income tax expense to reflect the combined entities.

Unaudited Pro Forma Condensed Consolidated Balance Sheet at June 30, 1997

(1) Certain amounts included in McFarland's historical financial statements have been reclassified to conform to Monterey's presentation.

(2) To reflect $100.0 million of borrowings related to the Acquisition.

(3) (4) To effect the Acquisition, Monterey paid $102.8 million in cash for 5.5 million of the outstanding common shares of McFarland ($18.55 per share) and issued coupons (each coupon being equal to one common share) to the holders of the remaining 0.2 million common shares of McFarland, entitling such holders to exchange each coupon for $18.55. The total value of the cash consideration and the coupons ($106.2 million), less the value of the net assets acquired ($5.8 million, which represents the assets acquired other than properties and equipment minus the liabilities assumed) has been allocated to oil and gas properties. In addition, a $30.5 million deferred tax liability related to the difference between the book basis and the tax basis of the oil and gas properties acquired has been recorded. Such amounts are allocated to oil and gas properties.

The amounts shown with respect to footnote (3) represent the adjustments necessary to adjust McFarland's historical amounts to reflect the acquisition and the accrual of the deferred income taxes related to the value allocated to oil and gas properties. The amounts shown with respect to footnote (4) reflect the reversal of McFarland's historical shareholders' equity, deferred income tax liability and accumulated depletion, depreciation and amortization as a result of the application of purchase accounting.

(5) To reflect the accrual of $7.9 million in costs related to the Acquisition.

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 1996

(1) The historical pro forma condensed consolidated statement of operations does not reflect an extraordinary item, debt extinguishment costs of $4.5 million, which were included in Monterey's historical financial statements. See Note 1 to Monterey's historical financial statements which are included elsewhere herein.

(2) Certain amounts included in McFarland's historical financial statements have been reclassified to conform to Monterey's presentation.

(3) To reverse McFarland's historical depletion, depreciation and amortization and income taxes.

(4) To reflect depletion, depreciation and amortization for the McFarland properties on the basis assigned under purchase accounting.

(5) To reflect interest expense on $100.0 million of borrowing related to the Acquisition.

(6) To adjust income tax expense to reflect the combined entities.

To the Board of Directors and Stockholders
of McFarland Energy, Inc.

We have audited the consolidated financial statements of McFarland Energy, Inc. and subsidiary as of December 31, 1996 and 1995 and related consolidated statement of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on

our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McFarland Energy, Inc. and subsidiary as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its methods of accounting for impairment of long-lived assets in 1995, and the amortization of oil and gas properties in 1994.

Coopers & Lybrand, L.L.P.
Newport Beach, California
March 7, 1997

McFARLAND ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 1996	December 31, 1995
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,289,000	$ 6,974,000
Accounts receivable	4,208,000	3,797,000
Tax refund receivable	--	229,000
Crude oil inventory	316,000	259,000
Materials and supplies inventory	176,000	131,000
Prepaid expenses and other current assets	669,000	610,000
Deferred tax assets	--	1,588,000
Total current assets	14,658,000	13,588,000
Property and Equipment		
Oil and gas properties	85,505,000	85,688,000
Other equipment	3,406,000	3,411,000
	88,911,000	89,099,000
Less accumulated depletion and depreciation	(53,274,000)	(55,266,000)
	35,637,000	33,833,000
Other Assets	155,000	272,000
Deferred Tax Assets	409,000	--
	$50,859,000	$47,693,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 2,497,000	$ 2,170,000
Royalties and revenue payable	1,786,000	1,345,000
Cost advances from joint venture partners	163,000	9,000
Other taxes payable	504,000	283,000
Other accrued liabilities	950,000	4,988,000
Total current liabilities	5,900,000	8,795,000
Convertible Note	--	2,600,000
Production Payment Notes	2,558,000	3,139,000
Deferred Income Taxes	--	764,000
Stockholders' Equity		
Common Stock, $1.00 par value Authorized 10,000,000 shares, Issued and Outstanding 5,679,484 and 5,239,234 in 1996 and 1995	5,679,000	5,239,000
Additional paid-in capital	21,372,000	18,932,000
Retained Earnings	15,350,000	8,224,000
	42,401,000	32,395,000
	$50,859,000	$47,693,000

The accompanying notes are an integral part of these financial statements.

McFARLAND ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	1996	1995	1994
Revenues:			
Oil and gas sales	$24,541,000	$19,204,000	$15,310,000
Interest and other	495,000	551,000	171,000
Gain on sale of assets	685,000	128,000	789,000
	25,721,000	19,883,000	16,270,000
Cost and expenses:			
Crude oil and gas production	7,691,000	7,274,000	6,482,000
Exploration, dry holes and abandonments	1,627,000	1,595,000	705,000
Depletion and depreciation	4,242,000	4,374,000	3,927,000
General and administrative	2,816,000	2,294,000	2,314,000
Litigation settlement	--	(17,158,000)	--
Property impairments	--	7,917,000	--
Interest	193,000	548,000	840,000
Other	103,000	440,000	492,000
	16,672,000	7,284,000	14,760,000
Income before income taxes	9,049,000	12,599,000	1,510,000
Income taxes (benefit):			
Current	1,508,000	27,000	2,000
Deferred	415,000	(1,069,000)	--
	1,923,000	(1,042,000)	2,000
Net income	$ 7,126,000	$13,641,000	$ 1,508,000
Net income per common share:			
Primary	$ 1.26	$ 2.61	$ 0.29
Fully diluted	$ 1.26	$ 2.41	$ 0.29

The accompanying notes are an integral part of these financial statements.

McFARLAND ENERGY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock				
	Shares	Amount	Additional Paid-in Capital	Retained Earnings/ (Deficit)	Total Stockholders' Equity
Balances, January 1, 1994	5,199,359	$5,199,000	$18,796,000	$(6,925,000)	$17,070,000
Exercise of stock options	12,875	13,000	40,000	--	53,000
Net income for year	--	--	--	1,508,000	1,508,000
Balances, December 31, 1994	5,212,234	5,212,000	18,836,000	(5,417,000)	18,631,000
Exercise of stock options	27,000	27,000	96,000	--	123,000
Net income for year	--	--	--	13,641,000	13,641,000
Balances, December 31, 1995	5,239,234	5,239,000	18,932,000	8,224,000	32,395,000
Conversion of convertible note	400,000	400,000	2,200,000	--	2,600,000
Exercise of stock options, including related tax benefits	40,250	40,000	240,000	--	280,000
Net income for year	--	--	--	7,126,000	7,126,000
Balances, December 31, 1996	5,679,484	$5,679,000	$21,372,000	$15,350,000	$42,401,000

The accompanying notes are an integral part of these financial statements.

McFARLAND ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$7,126,000	$13,641,000	$1,508,000

Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion and depreciation	4,242,000	4,374,000	3,927,000
Dry holes, abandonments and impairments	1,295,000	9,471,000	571,000
Deferred income taxes	415,000	(1,069,000)	--
Gain from sale of assets	(685,000)	(128,000)	(789,000)
Other	--	428,000	--
Change in assets and liabilities:			
Decrease (increase) in:			
Receivables	(411,000)	1,872,000	(2,387,000)
Tax refund receivable	229,000	(200,000)	--
Inventory	(102,000)	3,000	(69,000)
Prepaids and other current assets	(59,000)	27,000	(58,000)
Increase (decrease) in:			
Accounts payable	327,000	(438,000)	684,000
Royalties and revenue payable	441,000	(312,000)	664,000
Cost advances from joint venture partners	154,000	(264,000)	273,000
Taxes payable	221,000	9,000	78,000
Other accrued expenses	341,000	(56,000)	391,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,534,000	27,358,000	4,793,000
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:			
Purchase of property and equipment (including dry holes)	(7,551,000)	(13,207,000)	(22,435,000)
Amounts included in accrued liabilities	(4,379,000)	4,379,000	--
Proceeds from sales of property and equipment	895,000	145,000	10,000
Other	117,000	55,000	5,000
NET CASH USED IN INVESTING ACTIVITIES	(10,918,000)	(8,628,000)	(22,420,000)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:			
Exercise of stock options	280,000	123,000	53,000
Payments on debt	(581,000)	(13,743,000)	(143,000)
Issuance of production payment notes	--	--	3,624,000
Proceeds from long-term borrowing	--	--	13,400,000
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(301,000)	(13,620,000)	16,934,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,315,000	5,110,000	(693,000)
Cash and cash equivalents, beginning of the year	6,974,000	1,864,000	2,557,000
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 9,289,000	$ 6,974,000	$ 1,864,000

The accompanying notes are an integral part of these financial statements.

McFARLAND ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of McFarland Energy, Inc. is presented to assist in understanding the Company's financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of McFarland Energy, Inc. and its wholly-owned subsidiary, Carl Oil and Gas Co. (collectively, the "Company"). All intercompany accounts and transactions have been eliminated in consolidation. In December 1995, Carl was merged into McFarland and all of the operational and administrative functions of Carl were assumed by McFarland.

Business Activity

The Company is engaged in the exploration for and the production of crude oil and natural gas in the Continental United States.

Cash and Cash Equivalents

The Company temporarily invests surplus cash in top rated commercial paper and money market asset funds. These investments are carried at cost, which, because of the proximity of maturity, approximate market value. The average pretax yield at December 31, 1996 and 1995 was 5.3% and 5.6%, respectively. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The total of short term investments included as cash equivalents at December 31, 1996 and 1995 was $8,475,000 and $6,200,000, respectively. Also included as cash equivalent at December 31, 1996 and 1995 was cash held in an interest bearing escrow account of $328,000 and $280,000, respectively. See Crude Oil Hedge Program.

Oil and Gas Properties

The Company accounts for its oil and gas operations using the successful efforts method. Under the successful efforts method, costs of productive wells, development dry holes and productive leases are capitalized and amortized on a unit-of-production basis over the life of the related

remaining proven reserves. Cost centers for amortization purposes are determined on a property by property basis. See Changes in Accounting Principles. The Company provides for future abandonment and site restoration costs with respect to certain of its oil and gas properties. The costs are accrued over the expected life of the properties and are taken into account in determining depletion and depreciation expense. Oil and gas leasehold costs are capitalized when incurred. Significant unproved properties are assessed periodically and any impairments in value are charged to expense. Exploratory costs including geological and geophysical costs, dry holes and delay rentals are expensed as incurred. Exploratory drilling costs are initially capitalized, but charged to expense if and when a well is determined to be unsuccessful.

Proved properties are assessed periodically for impairments by comparing the future net cash flows with the net book carrying amount of the asset. The impairment loss on an oil and gas property is calculated as the difference between the carrying amount of the asset and its fair value, giving consideration to recent prices, pricing trends and discount rates. These projections represent the Company's best estimate of fair value based on the information available. Any impairment loss is recorded in the current period in which the recognition criteria are first applied and met. See Changes in Accounting Principles.

Other Equipment

Depreciation of other equipment has been provided using the straight-line method over estimated useful lives ranging from three to thirty years.

Costs and accumulated depreciation of automobiles, trucks, and office equipment are removed from their from their respective accounts when retired, and the related gain or loss is recognized.

Inventories

Crude oil inventories are stated at market and removed at the prevailing market price, which is essentially the actual selling price. Inventory of materials and supplies is stated at the lower of market or weighted average cost.

Crude Oil Hedge Program

Since 1992, the Company has maintained a crude oil hedging arrangement with a refiner, whereby a price range based on California Midway Sunset field posted prices is established. The purpose of the hedge is to ensure the Company a minimum level of cash flow to fund its capital commitments. When the monthly weighted average Midway Sunset field posted price is above the top of this range, then the Company pays the refiner the difference up to a maximum dollar amount per barrel. When the Midway Sunset field posted price is below the bottom of the range, then the refiner pays the Company the difference up to a maximum dollar amount per barrel. The current agreement, effective November 1, 1996, covers approximately one-half of the Company's average daily oil production and runs through October 1997.

Any gain or loss resulting form the hedging arrangement is recognized each month and included in the results of operations. In 1996 and 1995, the hedge program decreased revenues by $1,381,000 and $482,000, respectively. In 1994, the hedge program increased revenues by $446,000. The Hedge Agreement requires that the Company and the refiner maintain certain minimum levels of security. At December 31, 1996 and 1995, and Company had on deposit in an interest bearing escrow account $328,000 and $280,000, respectively, to meet such requirements.

The hedging arrangement exposes the Company to minimal counterparty credit risk, since to the extent that the refiner is unable to meet a monthly settlement obligation, the Company can call upon the security posted by the refiner.

Environmental Expenditures

Environmental expenditures relating to current operations are expensed or capitalized, as appropriate, depending on whether such expenditures provide future economic benefits. Liabilities are recognized when the expenditures are considered probable and can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology and undiscounted site-specific costs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Income per Common Share

The computation of primary earnings per share is based on the weighted average number of outstanding shares during each period. Shares of common stock issuable under stock options were excluded from the computation because they did not have a material effect on primary earnings per share. The weighted average number of outstanding shares used for primary and fully diluted earnings per share for 1996 was 5,654,474. For 1995, the computation of fully diluted earnings per share includes the conversion of the 8% convertible note and the assumed exercise of the dilutive stock options. Net income used in the computation of fully diluted earnings per share was adjusted for the interest expense applicable to the convertible note. The

assumed conversion of the production payment notes was not included in the computation of fully diluted earnings per share since the effect would be anti-dilutive. The weighted average number of outstanding shares used in the calculations for primary and fully diluted per share amounts for 1995 was 5,229,338 and 5,775,730, respectively. The weighted average number of outstanding shares for 1994 was 5,202,630.

Changes in Accounting Principles

Accounting for Impairment of Long-Lived Assets. In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. It establishes guidelines for determining recoverability based on future net cash flows from the use of the asset and for the measurement of the impairment loss. Impairment loss under SFAS No. 121 is calculated as the difference between the carrying amount of the asset and its fair value. Any impairment loss is recorded in the current period in which the recognition criteria are first applied and met.

Under the successful efforts method of accounting for oil and gas operations, the Company periodically assessed its proved properties for impairments by comparing the aggregate net book carrying amount of all proved properties with their aggregate future net cash flows. The new statement requires the impairment review be performed on the lowest level of asset grouping for which there are identifiable cash flows. In the case of the Company, this results in a property by property impairment review. The Company adopted SFAS No. 121 in the first quarter of 1995 and primarily as a result of significantly lower natural gas prices, recorded an impairment loss on certain oil and gas properties totaling $4,765,000. In addition, the Company wrote-off its investment in a natural gas marketing and gas gathering company in the amount of $750,000.

In the fourth quarter of 1995, the Company recorded an additional impairment on certain gas properties totaling $1,520,000. In addition, the Company wrote-off its previously deferred development costs totaling $882,000 related to its Ten Section gas storage project. The Company determined that this asset had been impaired based on the market uncertainties negatively impacting the project.

Amortization of Oil and Gas Properties. Effective January 1, 1994, the Company changed its method of accounting for amortization of its oil and gas properties. As a result of this change, the capitalized costs of the Company's oil and gas properties which were previously amortized on a field-by-field basis are now amortized on a property-by-property basis. The Company believes that this change permits a more precise calculation of amortization and association of a property's cost with related revenues. For the year ended December 31, 1994, the effect of the change increased net income by $95,000 or $0.02 per share of common stock. The cumulative effect of this accounting change for years prior to 1994 was not material.

Accounting for Investments. On January 1, 1994, the Company adopted the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The adoption of SFAS No. 115 did not have any effect on the 1994 net income.

2. Property Acquisitions

Rio Vista Property Acquisition. During 1996, the Company closed two acquisitions for a combined 8% non-operated working interest in California's most prolific dry gas producing unit in Sacramento Valley. Total consideration for the interests acquired was $2,612,000 cash and was funded from the Company's existing cash balances. The acquisition was accounted for as a purchase, and accordingly, the purchase price was allocated to the assets acquired on the basis of their fair values.

Barham Ranch Property Acquisition. On December 7, 1995, the Company announced it had reached a definitive agreement to acquire the operated and non-operated working interests in nineteen producing oil wells in Santa Barbara County, California for $3,400,000 cash. The transaction closed on January 31, 1996 and was funded from the Company's existing cash balances. The transaction was accounted for as a purchase as of December 31, 1996, and accordingly, the purchase price was allocated to the assets acquired on the basis of their fair values.

Star Fee Property Acquisition. On April 22, 1994, the Company announced the closing of its acquisition of a significant oil producing property located in the Midway Sunset field, Kern County, California. The property, known as the Star Fee, is located one-eighth mile west of the Company's other principal Midway Sunset field property and possesses several similar reservoir characteristics. Final consideration consisted of approximately $7,300,000 cash, issuance of $3,624,000 seven-year convertible production payment notes and retention of a sliding scale royalty by the seller in exchange for 100% working interest. The Company borrowed $6,000,000 under the term loan facility provided by its credit agreement. See Note 4 of Notes to Consolidated Financial Statement. The Company's financial statements include the results of the Star Fee property from the closing date. The acquisition was accounted for as a purchase, and accordingly, the purchase price was allocated to the assets acquired on the basis of their fair values.

Oak Hill Field Property Acquisition. On September 26, 1994, the Company closed the acquisition of working interests in fifteen operated and thirty-three non-operated natural gas producing properties located in the Oak Hill field, Rusk County, Texas. Total consideration was $6,280,000 cash, of which the Company borrowed $6,000,000 under its amended revolving line of credit facility. Most of the reserves and value are concentrated in the

operated properties in which the working interests acquired range from 65% to 96%. The transaction was accounted for as a purchase and reflected as of June 1, 1994, the effective date. In accordance with the purchase method of accounting, the purchase price was allocated to the assets acquired on the basis of their fair values.

The following table presents unaudited pro forma operating results as if the acquisition of the Star Fee and Oak Hill field properties had occurred on January 1, 1994 and 1993:

	Year Ended December 31,	
	1994	1993
Revenues	$17,268,000	$16,409,000
Net Income (Loss)	$ 1,354,000	$(1,171,000)
Net Income (Loss) Per Share	$ 0.26	$ (0.23)

The pro forma results are based upon certain assumptions and estimates which the Company believes are reasonable. The pro forma results do not purport to be indicative of results that actually would have been obtained had the acquisitions occurred on January 1 of the periods presented, nor are they intended to be a projection of future results.

3. Litigation Settlement

On January 16, 1995, the Company announced it had settled with Chevron the lawsuit of McFarland Energy, Inc. v. Chevron U.S.A., Inc. (Case No. BC023747) for the sum of $25,673,000. In September 1994, a Los Angeles Superior Court jury trial awarded the Company compensatory and punitive damages totaling $47,300,000. On January 13, 1995, the Company and Chevron entered into a final settlement agreement and funds in the amount of $25,673,000 were wired to the Company on January 17, 1995. Of the total settlement amount, $8,292,000 was paid to the Company's outside attorneys and the Company incurred various other costs totaling $223,000. The net settlement amount of $17,158,000 was recognized as a gain in the first quarter of 1995.

4. Credit Agreement

On April 20, 1994, the Company entered into a credit agreement with its bank ("Credit Agreement") which consisted of a $5,000,000 unsecured revolving line of credit facility and a $6,000,000 seven-year term loan facility. On September 20, 1994, the Company amended the Credit Agreement in order to finance its acquisition of the Oak Hill field, Rusk County, Texas properties. The amendment increased the revolving line of credit facility to $10,000,000 and replaced the bank's offshore interest rate option with a LIBOR plus 1.5% optional rate. At the option of the Company, the interest rate on borrowed funds is either the reference rate, a rate of interest publicly announced by the bank; the fixed rate, the rate agreed upon between the Company and the bank; or LIBOR plus 1.5% In January 1995, the Company repaid all of the outstanding borrowing on the revolving line of credit. At December 31, 1996, there was no outstanding borrowing under this facility. The Company paid no interest on this facility in 1996.

The term loan credit facility consisted of a $6,000,000 seven-year term loan repayable over twenty-four successive quarterly equal installments commencing on June 1, 1995. The interest rate on borrowed funds was either the bank's reference rate plus 0.5%, a negotiated fixed rate or LIBOR plus 2%. In conjunction with the acquisition of the Star Fee property, the Company borrowed $6,000,000 under the term loan facility. The term loan was collateralized by two of the Company's principal crude oil producing properties. In March 1995, the Company repaid all the outstanding borrowing under the term loan facility. In 1996, the Company did not pay any interest on the term loan facility.

The Credit Agreement contains certain covenants which require maintenance of minimum levels of net worth and working capital, maintenance of minimum or maximum financial ratios, and certain limitations on the incurrence of liens or encumbrances on the Company's assets. The Company is required to pay a quarterly commitment fee of 0.25% per annum on the unused portion of the revolving credit facility. There are no compensating balance requirements. The Credit Agreement expires on June 1, 1997.

5. Production Payment Notes

On April 22, 1994, the Company issued $3,624,000 of 5% seven-year production payment notes ("Notes") in conjunction with the Star Fee Property acquisition. Interest payments are due quarterly, while monthly principal payments occur when the average monthly crude oil selling price of the property's production exceeds $12.00 per barrel. When the monthly average selling price is between $12.00 and $15.01 per barrel, the sum of the principal payments will be equal to $1.00 per each net revenue barrel produced from the property in that month. When the monthly average selling price exceeds $15.00 per barrel, the sum of the principal payments will be equal to $2.00 per each net revenue barrel produced from the property in that month.

The Notes are due February 1, 2001. The Company has the option to make the final payment of the outstanding balance in either cash, Company common stock, or a combination of both. The market value per share of common stock delivered will be based on the average quoted closing price on the National Association of Securities Dealers Stock Market System for the twenty trading days prior to January 20, 2001. The Notes are collateralized by one of the Company's principal crude oil properties. In 1996, the Company made interest payments totaling $144,000 on the production payment notes.

6. Convertible Notes

On January 4, 1993, the Company refinanced its previously issued convertible notes with the issuance of a single $2,600,000 convertible note to its largest institutional shareholder. The note bore interest at 8% per annum and was due January 4, 2003. The terms of the note called for quarterly interest payments through January 4, 2003, or up to the date of conversion. The Company had the option to convert the note to its common stock at any time after January 4, 1996 provided that the Company's common stock had been quoted by the National Association of Securities Dealers at a weighted average price of $6.50 per share, or higher, for at least nineteen out of twenty consecutive business days. This note was also convertible at the option of the note holder at any time after January 4, 1994 at the rate of one share of the Company's common stock for each $6.50 principal amount. In 1995, the Company made interest payments totaling $208,000. On January 29, 1996, the Company converted the note into 400,000 shares of the Company's common stock. Following the conversion, the Company had a total of 5,639,234 common shares outstanding. The note was subordinate to any senior indebtedness incurred by the Company and restricted the payment of dividends on common stock if there existed any unpaid accrued interest.

7. Employees Savings and Stock Ownership Plan

The Company maintains a defined contribution and contributory savings plan covering all full-time employees who have been employed at least six months. The plan qualifies under Section 401(k) of the Internal Revenue Code. The Company contributes to the plan an amount equal to 1% of each eligible employee's annual earnings. In addition, the Company matches employee voluntary contributions up to 6% of annual compensation. Effective January 1, 1997, the Company increased its matching contributions to 8% of annual compensation. Employees vest in the Company's contribution at the rate of 10% each year for the first four years of credited service and 20% each year for the next three years.

For the three years ended December 31, 1996, 1995, and 1994, contributions of $187,000, $172,000, and $171,000, respectively, were made by the Company to the plan.

8. Stock Option Plans

Employee Plan

On March 6, 1986, the Company's Board of Directors unanimously approved the 1986 Stock Option Plan ("1986 Plan"), under which 225,000 shares of the Company's common stock were reserved for issuance to officers and key employees. The 1986 Plan was adopted by the shareholders at the May 29, 1986 Annual Meeting of Shareholders. Options vest 25% annually and are exercisable beginning one year after the date granted.

At the May 24, 1989 Annual Meeting of Shareholders, the shareholders approved the 1989 Stock Option Plan ("1989 Plan") which is identical in all material respects to the 1986 Plan. Under the 1989 Plan, 250,000 shares of the Company's common stock were reserved for issuance to officers and key employees.

At the May 30, 1986 Annual Meeting of Shareholders, the shareholders approved the 1996 Incentive Stock Plan ("1996 Plan") which is identical in all material respects to the 1986 and 1989 Plans. Under the 1996 Plan, 260,000 shares of the Company's common stock are reserved for issuance to officers and key employees.

A summary of the Company's stock option activity, and related information for the years ended December 31 follows:

	1996		1995	
	Options	Wtd. Avg. Exer. Price	Options	Wtd. Avg. Exer. Price
Outstanding--beginning of year	317,063	$4.89	295,875	$4.59
Granted	86,000	$7.50	69,000	$6.25
Exercised	(40,250)	$4.51	(25,000)	$4.55
Forfeited	(2,562)	$5.70	(22,812)	$5.53
Outstanding--end of year	360,251	$5.58	317,063	$4.89
Exercisable--end of year	219,781		199,892	
Weighted average fair value of options granted during the year	$ 3.33		$ 2.73	

Exercise prices for options outstanding as of December 31, 1996 ranged from $4.13 to $10.00 per share. The weighted average contractual life of these options is 6.9 years.

Director Plan

At the June 7, 1994 Annual Meeting of Shareholders, the shareholders approved the Non-Employee Director Stock Option Plan (the "Director Plan"). Under the Director Plan, 50,000 shares of the Company's common stock are reserved for issuance to the outside directors of the Company. Each outside director receives an initial option to purchase 2,000 shares of common stock. Annually, thereafter, options to purchase 1,000 shares of common stock will be granted to each outside director. Effective

January 1, 1997, the Director Plan was amended to increase the annual grant to outside directors to 2,000 shares of common stock. The option exercise price is equal to the fair market value of the Company's common stock on the date of grant and the options are exercisable immediately.

A summary of the Company's stock option activity, and related information for the years ended December 31 follows:

	1996		1995	
	Options	Wtd. Avg. Exer. Price	Options	Wtd. Avg. Exer. Price
Outstanding--beginning of year	18,000	$5.86	14,000	$5.21
Granted	7,000	$9.88	6,000	$7.00
Exercised	--	--	(2,000)	$4.75
Outstanding--end of year	25,000	$6.99	18,000	$5.86
Exercisable--end of year	25,000		18,000	
Weighted average fair value of options granted during the year	$ 3.33		$ 2.73	

Exercise prices for options outstanding as of December 31, 1996 ranged from $4.75 to $9.88 per share. The weighted average contractual life of these options is 8.3 years.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1996 and 1995, respectively; risk-free interest rates of 6.5% and 5.4%; volatility factors of the expected market price of the Company's common stock of 0.39 and 0.41; and a weighted-average expected life of the option of 5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	1996	1995
Pro forma net income	$7,034,000	$13,600,000
Pro forma earnings per share:		
Primary	$ 1.24	$ 2.60
Fully diluted	$ 1.24	$ 2.41

9. Income Taxes

Income tax expense provided in the Company's financial statements differs substantially from the actual income tax liability to federal and state governments. The following reconciliations are provided to enhance the reader's understanding of this relationship.

Reconciliation of income tax expense (benefit) with tax at statutory rate:

	Year Ended December 31,		
	1996	1995	1994
Computed tax at 34%	$3,077,000	$4,284,000	$513,000
State income taxes, net of federal tax benefit	555,000	773,000	93,000
Utilization of net operating loss carryforwards	(1,347,000)	(1,607,000)	--

Utilization of percentage depletion.....	(1,177,000)	--	--
Asset acquisition and sale differences.....	736,000	--	--
Other, net.....	79,000	9,000	204,000
Change in valuation allowance.....	--	(4,501,000)	(808,000)
	$1,923,000	$(1,042,000)	$ 2,000

Income taxes have the following components:

	Year Ended December 31,		
	1996	1995	1994
Current tax expense:			
Federal.....	$1,138,000	$ --	$ --
State.....	370,000	27,000	2,000
	1,508,000	27,000	2,000
Deferred tax expense (benefit):			
Federal.....	261,000	(1,069,000)	--
State.....	154,000	--	--
	415,000	(1,069,000)	--
	$1,923,000	$(1,042,000)	$ 2,000

The deferred tax assets and liabilities as of December 31, 1996 and 1995 were as follows:

Deferred tax assets (liabilities):

	Year Ended December 31,	
	1996	1995
Net operating loss carryforwards.....	$ --	$1,588,000
Statutory depletion carryforwards.....	1,449,000	2,414,000
Tax credit carryforwards.....	1,757,000	327,000
State taxes, net.....	--	33,000
Property and equipment.....	--	253,000
Other, net.....	569,000	821,000
Valuation allowance.....	(780,000)	(780,000)
Total deferred tax assets.....	2,995,000	4,656,000
State taxes, net.....	(121,000)	--
Property and equipment.....	(1,115,000)	--
Other, net.....	(1,350,000)	(3,832,000)
Total deferred tax liabilities.....	(2,586,000)	(3,832,000)
Net deferred tax assets (liabilities)...	$ 409,000	$ 824,000

The Company establishes valuation allowances for deferred tax assets where it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has approximately $4,300,000 in federal statutory depletion carryforwards which may be used to offset future taxable income. These carryforwards do not expire. The Company also has approximately $1,757,000 of various tax credit carryforwards available which can be used to offset future regular income taxes in excess of future alternative minimum taxes. If not fully utilized, certain enhanced oil recovery tax credits of $1,098,000 will begin to expire in 2009. Federal alternative minimum tax credits of $659,000 may be carried forward indefinitely. Federal and state income taxes paid were $1,230,000, $12,000, and $2,000 in 1996, 1995, and 1994, respectively.

10. Commitments and Contingencies

The Company has certain contingent liabilities with respect to litigation, claims, taxes, government regulations and contractual agreements arising from the ordinary course of business. While there are always risks inherent in the resolution of any contingency, it is the opinion of management that such contingent liabilities will not result in any loss which would have an adverse material effect on the Company's financial position.

The Company is subject to other possible loss contingencies pursuant to federal, state and local environmental laws and regulations. These include existing and potential obligations to investigate the effects of the release of certain hydrocarbons or other substances at various sites, to remediate or restore these sites, and to compensate others for damages and to make other payments as required by law or regulation. These obligations relate to sites owned by the Company or others, and are associated with past and present oil and gas operations. The amount of such obligations is

indeterminate and will depend on such factors as the unknown nature and extent of contamination, the unknown timing, extent and method of remedial actions which may be required, the determination of the Company's liability in proportion to other responsible parties, and the state of the law.

The Company has entered into employment agreements with certain key employees. The initial term of each agreement expires on December 31, 1999, or after twenty-four months following a change in control. The agreements provide if the individual's employment is terminated after a change in control (as described in the agreements), the individual is entitled to a lump sum payment equal to an amount ranging from one to two times his base salary, including bonus.

The Company markets its crude oil under long-term contracts to a number of refiners and marketing agencies, including several major oil companies, and its natural gas to utilities and pipeline companies. In 1996, two purchasers accounted for more than 10% of the Company's total oil and gas sales. Their purchases in 1996 accounted for 34% and 24%, respectively.

11. Supplemental Oil and Gas Reserve Information and Related Data (Unaudited)

As of December 31, 1996, 1995 and 1994, the detail of capitalized costs attributable to the Company's oil and gas properties were as follows:

	December 31,		
	1996	1995	1994
Proved properties.....	$83,851,000	$85,019,000	$78,942,000
Unproved properties.....	1,654,000	669,000	2,574,000
	$85,505,000	$85,688,000	$81,516,000
Accumulated depletion....	$50,488,000	$52,351,000	$48,279,000

During the years ended December 31, 1996, 1995 and 1994, the following amounts were expended in the activities described:

	Year Ended December 31,		
	1996	1995	1994
Acquisition of proved properties.	$1,834,000	$ 5,403,000	$17,562,000
Exploration.....	2,538,000	1,528,000	1,114,000
Development.....	3,179,000	6,276,000	3,838,000
Total.....	$7,551,000	$13,207,000	$22,514,000

The Company operates in only one line of business, oil and gas exploration and production, and conducts those operations solely in one major geographic area, the Continental United States. Accordingly, the consolidated statements of operations shown in these financial statements reflect the results of operations from oil and gas producing activities for the years ended December 31, 1996, 1995 and 1994.

During 1996, 1995 and 1994, the following changes occurred in the Company's estimated proved oil and gas reserves:

	Oil			Gas		
	(in thousands of bbls and mcf)					
	1996	1995	1994	1996	1995	1994
Beginning of the year.....	9,514	8,299	5,132	12,104	14,723	7,991
Revision of previous estimates:						
Price changes.....	447	54	673	1,735	--	(30)
Quantity estimates.....	5,225	1,740	(166)	3,075	(1,751)	(2,715)
Purchases of minerals in place.....	--	696	3,913	4,547	1,266	9,540
Extensions, discoveries and other additions.....	--	--	--	310	47	1,550
Production.....	(1,357)	(1,206)	(969)	(1,976)	(2,181)	(1,456)
Sales of minerals in place.....	(117)	(69)	(284)	--	--	(157)
End of the year.....	13,712	9,514	8,299	19,795	12,104	14,723
Proved developed reserves.....	12,929	8,534	8,299	19,588	12,104	9,374

The revision of previous estimates of proved reserves is primarily influenced by two factors: the estimate of remaining hydrocarbons in the reservoir and the economics of extraction and sale. When sales prices fluctuate dramatically, the estimate of economically recoverable reserves is significantly impacted. At the end of 1994, California crude prices were more than $4.00 per barrel higher than at the end of 1993. These higher prices increased the Company's economically recoverable reserves in 1994 at several oil producing properties. In 1995, better than projected operating results at the Company's two core Midway Sunset field properties accounted for most of

the upward quantity estimate revisions. 1994 and 1995 gas reserves were revised downward principally due to disappointing production results at some of the Company's gas wells in the Northern San Joaquin Valley. Product prices were sharply higher at the end of 1996, resulting in upward revisions to oil and gas reserves. In addition, as a result of a comprehensive study performed by the Company's independent reservoir engineers, the Company's Midway Sunset field oil reserves were revised upward in 1996 by 4.8 million barrels.

At December 31, 1996, 1995 and 1994, the Company's Standardized Measure of Discounted Future Net Cash Flows were as follows:

	1996	1995	1994
Future gross revenue	$301,000,000	$153,000,000	$129,000,000
Future production and development costs	(115,000,000)	(68,000,000)	(64,000,000)
Future net revenue	186,000,000	85,000,000	65,000,000
10% annual discount for estimated timing of net revenue	(71,000,000)	(25,000,000)	(21,000,000)
Discounted future net revenue	115,000,000	60,000,000	44,000,000
Discounted future income tax expense	(25,000,000)	(4,000,000)	--
Standardized measure of discounted future net cash flows	$ 90,000,000	$ 56,000,000	$ 44,000,000

The process of estimating oil and gas quantities is inherently imprecise. Ascribing monetary values to those reserves, therefore, yields imprecise estimates at best. Proved reserve quantities are merely estimates of future production from known reservoirs based on year end economic factors, which may differ materially from actual recovery as production occurs and market prices and production costs change. The Company's Hedge Program is not considered in the evaluation of the year end reserves.

THE FOREGOING RESERVE ESTIMATES AND RESULTING FUTURE NET CASH FLOWS WERE DEVELOPED IN ACCORDANCE WITH SEC PROCEDURES, USING SELLING PRICES IN EFFECT AT THE END OF THE YEARS INDICATED. AS ILLUSTRATED ABOVE, BOTH THE QUANTITY ESTIMATES AND "CASH FLOWS" OF RESERVES ARE SENSITIVE TO SALES PRICES IN EFFECT AT THE YEAR END QUANTIFICATION DATE. DURING PERIODS OF RAPIDLY CHANGING PRICES, RESERVE INFORMATION MUST BE EXAMINED WITH THIS UNDERSTANDING.

Statement of Valuation Policies

The following accounting policies have been followed in preparing the above presentation. The estimates of proved reserves and related valuations were developed in accordance with rules of the Securities and Exchange Commission (SEC). The other policies described below are based principally on rules developed by the SEC and the Financial Accounting Standards Board (FASB).

The dollar valuation of proved reserves is developed as follows:

(1) Estimates are made of quantities of proved reserves and the future periods during which they are expected to be produced, based on year end economic conditions.

(2) The estimated future production of proved reserves is priced on the basis of year end prices.

(3) The estimated future expense of developing and producing the reserve quantities and of abandonment and site restoration are costed at year end costs.

(4) The resulting future net revenue streams are reduced to present value amount by applying a 10 percent discount factor.

(5) The Discounted Future Net Revenue amount is further reduced by the estimated amount of discounted future income tax expense attributable to the future income based on year end tax rates. Anticipate future permanent differences, such as allowable statutory percentage depletion in excess of basis, are taken into account. The effects of any future timing differences, such as intangible drilling costs, are not recognized.

AS ACKNOWLEDGED BY THE SEC, THIS VALUATION PROCEDURE IS NOT INTENDED TO YIELD THE BEST ESTIMATE OF THE FAIR MARKET VALUE OF A COMPANY'S OIL AND GAS PROPERTIES. AN ESTIMATE OF FAIR MARKET VALUE SHOULD ALSO TAKE INTO ACCOUNT, AMONG OTHER FACTORS, THE LIKELIHOOD OF FUTURE RECOVERIES OF OIL AND GAS IN EXCESS OF PROVED RESERVES, ANTICIPATED FUTURE PRICES OF OIL AND GAS AND RELATED DEVELOPMENT AND PRODUCTION COSTS, A DISCOUNT RATE WHICH REFLECTS ACTUAL ECONOMIC CONDITIONS, AND AN INCOME TAX PROVISION WHICH RECOGNIZES BOTH PERMANENT AND TEMPORARY DIFFERENCES.

The following are the principal sources of changes in the standardized measure of discounted future net cash flows during the years ended December 31, 1996, 1995 and 1994:

	1996	1995	1994
Beginning of year estimate	$56,000,000	$44,000,000	$21,000,000
Net change in prices and production costs	24,000,000	7,000,000	10,000,000

Revision to previous quantity estimates....	34,000,000	10,000,000	(3,000,000)
Purchase of minerals in place.....	8,000,000	6,000,000	22,000,000
Extensions and discoveries.....	1,000,000	--	2,000,000
Net oil and gas sales.....	(18,000,000)	(11,000,000)	(9,000,000)
Sales of minerals in place.....	--	--	(1,000,000)
Accretion of discount.....	6,000,000	4,000,000	2,000,000
Net change in income taxes.....	(21,000,000)	(4,000,000)	--
End of year estimate.....	$90,000,000	$56,000,000	$44,000,000

Analysis of Changes

Year ended December 31, 1996:

Net change in prices and production costs represents the present value of changes in prices and production costs multiplied by proved reserves as of the beginning of the year.

The revision to previous quantity estimates reflects upward estimate revisions at the Company's two core Midway Sunset field properties.

Purchase of minerals in place consisted of the acquisition of a working interest in a gas producing property in Sacramento Valley, California.

Extensions and discoveries resulted from a successful exploratory gas well drilled in the Northern San Joaquin Valley.

"Accretion of Discount" was computed by applying 10 percent to the discounted future net revenue before taxes as of the beginning of the year in recognition of the increase resulting from the impact of the passage of time on the discounted cash flow approach to the valuation of the proved reserves.

Year ended December 31, 1995:

Net change in prices and production costs represents the present value of changes in prices and production costs multiplied by proved reserves as of the beginning of the year.

The revision to previous quantity estimates reflects upward estimate revisions at the Company's two core Midway Sunset field properties, partially offset by downward revisions at some of the Company's gas properties in the California Northern San Joaquin Valley and in East Texas.

Purchases of minerals in place consisted principally of the acquisition of oil producing properties in Santa Barbara County, California and the purchase of additional working interests in a property already operated by the Company.

Year ended December 31, 1994:

The revision to previous quantity estimates reflects the downward revision to some of the Company's natural gas reserves in the Northern San Joaquin Valley of California.

Purchases of minerals in place consisted principally of the acquisition of the Star Fee property in April 1994 and the Oak Hill field properties in September 1994.

Extensions and discoveries resulted from the drilling of five successful natural gas wells in the Northern San Joaquin Valley of California.

Sales of minerals in place principally reflects the sale of a Los Angeles Basin, California property to a third party pursuant to an out-of-court settlement reached in August 1994.

12. Unaudited Quarterly Operating Results

The following is a tabulation of unaudited quarterly operating results for 1996, 1995 and 1994.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(In thousands except per share data)				
1996					
Total Revenues....	$ 5,822	$6,719	$6,385	$6,795	$25,721
Net Income.....	$ 1,180	$1,953	$1,486	$2,507(1)	$ 7,126
Per Share.....	$ 0.21	$ 0.35	$ 0.26	$ 0.44	$ 1.26
1995					
Total Revenues....	$ 4,520	$5,171	$5,109	$5,083	$19,883
Net Income.....	$10,074(2)	$ 840	$1,326	$1,401(3)	$13,641
Per Share.....	$ 1.93	$ 0.16	$ 0.25	$ 0.27	$ 2.61
1994					
Total Revenues....	$ 2,955	$3,391	$4,406	$5,518	$16,270
Net (Loss) Income.	$ (349)	$ 236	$ 658	$ 963(4)	$ 1,508
Per Share.....	$ (0.07)	$ 0.05	$ 0.13	$ 0.18	$ 0.29

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(1) The fourth quarter of 1996 includes year end tax adjustments and the recognition of deferred tax assets totaling $418,000.

(2) The first quarter of 1995 reflects the net gain from a lawsuit settlement of $17,158,000 and the $5,515,000 impairment on certain oil and gas properties and a write-off of an investment in a natural gas marketing company.

(3) The fourth quarter of 1995 includes the year end income tax adjustments and the recognition of deferred tax assets totaling $3,050,000, which were partially offset by an additional impairment of $2,402,000 on certain gas properties and the write-off of development costs relating to a gas storage project.

(4) The fourth quarter of 1994 reflects the gain on the sale of an oil and gas property and other nonrecurring items, the net of which increased operating income by approximately $437,000.

McFARLAND ENERGY, INC.
CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)
(in millions of dollars, except as noted)

	Six Months Ended June 30,	
	1997	1996
Revenues		
Oil and gas sales	$12.6	$11.7
Interest and other	0.3	0.2
Gain on sale of assets	0.1	0.6
	13.0	12.5
Costs and Expenses		
Crude oil and gas production	5.6	3.6
Exploration, dry holes and abandonments	0.4	0.7
Depletion and depreciation	2.2	2.3
General and administrative	1.7	1.4
Interest	0.1	0.1
	10.0	8.1
Income (Loss) Before Income Taxes	3.0	4.4
Income taxes	(0.8)	(1.3)
Net Income (Loss)	$ 2.2	$ 3.1
Net Income per common share		
Primary	$0.39	$0.56
Fully diluted	$0.39	$0.56
Weighted average shares outstanding (in millions).	5.7	5.6

The accompanying notes are an integral part of these financial statements.

McFARLAND ENERGY, INC.
CONSOLIDATED BALANCE SHEET (UNAUDITED)
(in millions of dollars)

	June 30, 1997	December 31, 1996
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9.2	$ 9.3
Accounts receivable	3.9	4.2
Other current assets	0.5	1.2
	13.6	14.7
Properties and Equipment, at cost		
Oil and gas (successful efforts accounting).	89.9	85.5
Other	3.5	3.4
	93.4	88.9
Accumulated depletion and depreciation	(54.7)	(53.3)
	38.7	35.6
Deferred Income Taxes	0.4	0.4
Other Assets	--	0.2
	$52.7	$50.9
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 3.5	$ 4.4
Other current liabilities	0.4	1.5
	3.9	5.9

Production Payment Notes	2.3	2.6
Other Long-term Obligations	1.6	--
Shareholders' Equity		
Common stock	5.7	5.7
Paid-in capital	21.6	21.4
Retained earnings	17.6	15.3
	44.9	42.4
	$52.7	$50.9

The accompanying notes are an integral part of these financial statements.

McFARLAND ENERGY, INC.
STATEMENT OF CASH FLOWS (UNAUDITED)
(in millions of dollars)

	Six Months Ended June 30,	
	1997	1996
Operating Activities:		
Net income	$2.2	$3.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and abandonments	2.3	2.6
Deferred income taxes	--	1.2
Gain on disposition of assets	(0.1)	(0.6)
Exploratory dry hole costs	0.2	0.2
Changes in operating assets and liabilities	0.5	(0.4)
Net Cash Provided by Operating Activities	5.1	6.1
Investing Activities:		
Capital expenditures	(5.2)	(7.4)
Proceeds from property sales	0.1	0.6
Other	--	0.1
Net Cash Used in Investing Activities	(5.1)	(6.7)
Financing Activities:		
Payments on debt	(0.3)	(0.3)
Exercise of stock options	0.2	--
Net Cash Used in Financing Activities	(0.1)	(0.3)
Net (Decrease) Increase in Cash and Cash Equivalents	(0.1)	(0.9)
Cash and Cash Equivalents at Beginning of Period	9.3	7.0
Cash and Cash Equivalents at End of Period	$9.2	$6.1

The accompanying notes are an integral part of these financial statements.

McFARLAND ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Accounting Policies

The accompanying financial statements reflect all adjustments which, in the opinion of management, are necessary to present fairly the financial position at June 30, 1997 and the results of operations for the six months ended June 30, 1997. These financial statements and the notes thereto should be read in conjunction with the Company's financial statements for the year ended December 31, 1996 included elsewhere herein.

(2) Production Payment Notes

On April 22, 1994, the Company issued $3,624,000 of 5% seven-year production payment notes ("Notes") in conjunction with the Star Fee property acquisition. Interest payments are due quarterly, while monthly principal payments occur when the average monthly crude oil selling price of the property's production exceeds $12.00 per barrel. When the monthly average selling price is between $12.00 and $15.01 per barrel, the sum of the principal payments will be equal to $1.00 per each net revenue barrel produced from the property in that month. When the monthly average selling price exceeds $15.00 per barrel, the sum of the principal payments will be equal to $2.00 per each net revenue barrel produced from the property in that month.

The Notes are due February 1, 2001. The Company has the option to make the final payment of the outstanding balance in either cash, Company common stock, or a combination of both. The market value per share of common stock delivered will be based on the average quoted closing price on the National Association of Securities Dealers Stock Market for the twenty trading days prior to January 20, 2001. The Notes are collateralized by one of the Company's principal crude oil properties.

(3) Commitments and Contingencies

The Company has certain contingent liabilities with respect to litigation, claims, taxes, government regulations, and contractual agreements arising from the ordinary course of business. While there are always risks inherent in the resolution of any contingency, it is the opinion of management that such contingent liabilities will not result in any loss which would have an adverse material effect on the Company's financial position.

In the second quarter of 1997 the Company accrued $1.6 million with respect to an environmental Superfund site. Including such accrual, the Company has provided a total of $1.9 million with respect to such site.

The Company is subject to other possible loss contingencies pursuant to federal, state and local environmental laws and regulations. These include existing and potential obligations to investigate the effects of the release of certain hydrocarbons or other substances at various sites, to remediate or restore these sites, and to compensate others for damages and to make other payments as required by law or regulation. These obligations relate to sites owned by the Company or others, and are associated with past and present oil and gas operations. The amount of such obligations is indeterminate and will depend on such factors as the unknown nature and extent of contamination, the unknown timing, extent and method of remedial actions which may be required, the determination of the Company's liability in proportion to other responsible parties, and the state of the law.

ANNEX A

AGREEMENT AND PLAN OF MERGER

dated as of

August 17, 1997

between

MONTEREY RESOURCES, INC.

and

TEXACO INC.

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER dated as of August 17, 1997 between Monterey Resources, Inc., a Delaware corporation (the "Company") and Texaco Inc., a Delaware corporation ("Parent").

WHEREAS, the Boards of Directors of the Company and Parent have determined that the strategic combination of the Company and Parent is in the best interests of the stockholders of the Company and Parent, respectively;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE 1

The Merger

Section 1.1. The Merger. (a) Upon the terms and subject to the conditions hereof, at the Effective Time, a newly formed wholly owned

subsidiary of Parent (the "Merger Subsidiary") shall be merged (the "Merger") with and into the Company in accordance with the General Corporation Law of the State of Delaware ("Delaware Law"), whereupon the separate existence of Merger Subsidiary shall cease, and the Company shall be the surviving corporation (the "Surviving Corporation").

(b) As soon as practicable after satisfaction or, to the extent permitted hereunder, waiver of all conditions to the Merger set forth herein the Company and Merger Subsidiary will file a certificate of merger (the "Certificate of Merger") with the Delaware Secretary of State and make all other filings or recordings required by Delaware Law in connection with the Merger. The Merger shall become effective at such time (the "Effective Time") as the Certificate of Merger is duly filed with the Delaware Secretary of State (or at such later time as may be agreed in writing by the parties hereto and specified in the Certificate of Merger).

(c) From and after the Effective Time, the Surviving Corporation shall possess all the rights, assets, powers, privileges and franchises and be subject to all of the obligations, liabilities, restrictions and disabilities of the Company and Merger Subsidiary, all as provided under Delaware Law.

Section 1.2. Conversion of Shares. At the Effective Time:

(a) each share of common stock, $.01 par value, of the Company ("Company Stock") outstanding immediately prior to the Effective Time shall (except as otherwise provided in Section 1.6) be converted into the right to receive that number of shares (the "Merger Consideration") of common stock, $6.25 par value, of Parent ("Parent Stock") determined by dividing $21 by the average closing price ("Average Closing Price") of Parent Stock on the New York Stock Exchange (the "NYSE") for the thirty trading days ending on and including the fifth trading day prior to the Effective Time; provided that if the Average Closing Price is greater than $121, the number of shares of Parent Stock to be issued per share of Company Stock shall be 0.1736, and if the Average Closing Price is less than $99, the number of shares of Parent Stock to be issued per share of Company Stock shall be 0.2121.

(b) each share of Company Stock held by the Company as treasury stock or owned by Parent or any of its subsidiaries immediately prior to the Effective Time shall be canceled, and no payment shall be made with respect thereto; and

(c) each share of common stock of Merger Subsidiary outstanding immediately prior to the Effective Time shall be converted into and become one share of common stock of the Surviving Corporation with the same rights, powers and privileges as the shares so converted and shall constitute the only outstanding shares of capital stock of the Surviving Corporation.

Section 1.3. Surrender and Payment. (a) Prior to the Effective Time, Parent shall appoint an agent, which shall be Parent's Transfer Agent or such other person or persons reasonably satisfactory to the Company (the "Exchange Agent") for the purpose of exchanging certificates representing Company Stock (the "Certificates") for the Merger Consideration. As of the Effective Time, Parent will make available to the Exchange Agent, as needed, the Merger Consideration to be paid in respect of shares of Company Stock. Promptly after the Effective Time, Parent will send, or will cause the Exchange Agent to send, to each holder of shares of Company Stock at the Effective Time a letter of transmittal for use in such exchange (which shall specify that the delivery shall be effected, and risk of loss and title shall pass, only upon proper delivery of the Certificates to the Exchange Agent).

(b) Each holder of shares of Company Stock that have been converted into the right to receive the Merger Consideration will be entitled to receive, upon surrender to the Exchange Agent of a Certificate, together with a properly completed letter of transmittal, the Merger Consideration in respect of the Company Stock represented by such Certificate. Each holder of shares of Company Stock shall receive the Merger Consideration in book-entry form unless such holder elects to receive certificates of Parent Stock and so indicates in the letter of transmittal. Until so surrendered, each such Certificate shall, after the Effective Time, represent for all purposes only the right to receive such Merger Consideration.

(c) If any portion of the Merger Consideration is to be paid to a person (as defined in Section 10.14) other than the person in whose name the Certificate is registered, it shall be a condition to such payment that the Certificate so surrendered shall be properly endorsed or otherwise be in proper form for transfer and that the person requesting such payment shall pay to the Exchange Agent any transfer or other taxes required as a result of such payment to a person other than the registered holder of such Certificate or establish to the satisfaction of the Exchange Agent that such tax has been paid or is not payable.

(d) After the Effective Time, there shall be no further registration of transfers of shares of Company Stock outstanding prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation, they shall be canceled and exchanged for the consideration provided for, and in accordance with the procedures set forth, in this Article.

(e) Any portion of the Merger Consideration made available to the Exchange Agent pursuant to Section 1.3(a) that remains unclaimed by the holders of shares of Company Stock six months after the Effective Time shall be returned to Parent, upon demand, and any such holder who has not exchanged shares of Company Stock for the Merger Consideration in accordance with this Section prior to that time shall thereafter look only to Parent for payment of the Merger Consideration in respect of such shares of Company Stock. Notwithstanding the foregoing, Parent shall not be liable to any holder of shares of Company Stock for any amount paid to a public official pursuant to applicable abandoned property laws. Any amounts remaining unclaimed by holders

of shares of Company Stock six years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any governmental entity) shall, to the extent permitted by applicable law, become the property of Parent free and clear of any claims or interest of any person previously entitled thereto.

(f) No dividends, interest or other distributions with respect to securities of Parent constituting part of the Merger Consideration shall be paid to the holder of any unsurrendered Certificates until such Certificates are surrendered as provided in this Section. Upon such surrender, there shall be paid, without interest, to the person in whose name the securities of Parent have been registered, all dividends, interest and other distributions payable in respect of such securities on a date subsequent to, and in respect of a record date after, the Effective Time.

Section 1.4. Stock Options. At the Effective Time, each option to purchase shares of Company Stock outstanding under any employee stock option or compensation plan or arrangement of the Company, whether or not exercisable, and whether or not vested, shall be canceled, and Parent shall issue in exchange therefor an option to purchase shares of Parent Stock (a "Substitute Option"). The number of shares of Parent Stock subject to such Substitute Option and the exercise price thereunder shall be computed in compliance with the requirements of Section 424(a) of the Internal Revenue Code of 1986 (the "Code"). Prior to the Effective Time, the Company will use its reasonable efforts to obtain such consents, if any, as may be necessary to give effect to the transactions contemplated by this Section. In addition, prior to the Effective Time, the Company will, to the extent permitted by the agreements, make any amendments to the terms of such stock option or compensation plans or arrangements that are necessary to give effect to the transactions contemplated by this Section. Except as set forth in Schedule 1.4, the Company represents that neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will cause the acceleration of vesting with respect to any employee stock option or other benefit under any stock option plan or compensation plan or arrangement of the Company. Except as contemplated by this Section, the Company will not, after the date hereof, without the written consent of Parent, amend any outstanding options to purchase shares of Company Stock (including accelerating the vesting).

Section 1.5. Adjustments. If at any time during the period between the date of this Agreement and the Effective Time, any change in the outstanding shares of capital stock of Parent shall occur, including by reason of any reclassification, recapitalization, stock split or combination, exchange or readjustment of shares, or any stock dividend thereon with a record date during such period, the Merger Consideration shall be adjusted appropriately.

Section 1.6. Fractional Shares. Fractional shares of Parent Stock may be issued in the Merger to holders of Common Stock who have not elected to receive certificates of Parent Stock pursuant to Section 1.03(b). Except as contemplated by the previous sentence, no fractional shares of Parent Stock shall be issued in the Merger, but in lieu thereof each holder of Company Stock otherwise entitled to a fractional share of Parent Stock will be entitled to receive, from the Exchange Agent in accordance with the provisions of this Section 1.6, a cash payment in lieu of such fractional shares of Parent Stock representing such holder's proportionate interest, if any, in the net proceeds from the sale by the Exchange Agent in one or more transactions (which sale transactions shall be made at such times, in such manner and on such terms as the Exchange Agent shall determine in its reasonable discretion) on behalf of all such holders of the aggregate of the fractional shares of Parent Stock which would otherwise have been issued (the "Excess Shares"). The sale of the Excess Shares by the Exchange Agent shall be executed on the NYSE through one or more member firms of the NYSE and shall be executed in round lots to the extent practicable. Until the net proceeds of such sale or sales have been distributed to the holders of Company Stock, the Exchange Agent will hold such proceeds in trust for the holders of Company Stock. Parent shall pay all commissions, transfer taxes and other out-of-pocket transaction costs, including, without imitation, the expenses and compensation of the Exchange Agent, incurred in connection with such sale of the Excess Shares. As soon as practicable after the determination of the amount of cash, if any, to be paid to holders of Company Stock in lieu of any fractional shares of Parent Stock, the Exchange Agent shall make available such amounts to such holders of shares of Company Stock without interest.

Section 1.7. Withholding Rights. Each of the Surviving Corporation and Parent shall be entitled to deduct and withhold from the consideration otherwise payable to any person pursuant to this Article such amounts as it is required to deduct and withhold with respect to the making of such payment under any provision of federal, state, local or foreign tax law. To the extent that amounts are so withheld by the Surviving Corporation or Parent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Stock in respect of which such deduction and withholding was made by the Surviving Corporation or Parent, as the case may be.

Section 1.8. Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such person of a bond, in such reasonable amount as the Surviving Corporation may direct, as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration to be paid in respect of the shares of Company Stock represented by such Certificates as contemplated by this Article.

ARTICLE 2

The Surviving Corporation

Section 2.1. Certificate of Incorporation. The certificate of incorporation of the Company in effect at the Effective Time shall be the certificate of incorporation of the Surviving Corporation until amended in accordance with applicable law.

Section 2.2. Bylaws. The bylaws of the Company in effect at the Effective Time shall be the bylaws of the Surviving Corporation until amended in accordance with applicable law.

Section 2.3. Directors and Officers. From and after the Effective Time, until successors are duly elected or appointed and qualified in accordance with applicable law, (i) the directors of Merger Subsidiary at the Effective Time shall be the directors of the Surviving Corporation and (ii) the officers of the Company at the Effective Time shall be the officers of the Surviving Corporation.

ARTICLE 3

Representations and Warranties of the Company

The Company represents and warrants to Parent that, except as disclosed in the Company Schedule of Exceptions:

Section 3.1. Corporate Existence and Power. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all corporate powers and all governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted, except for those licenses, authorizations, permits, consents and approvals the absence of which would not, individually or in the aggregate, have a material adverse effect (as defined in Section 10.14) on the Company. The Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where such qualification is necessary, except for those jurisdictions where failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the Company. The Company has heretofore delivered to Parent true and complete copies of the certificate of incorporation and bylaws of the Company as currently in effect.

Section 3.2. Corporate Authorization. (a) The execution, delivery and performance by the Company of this Agreement and the consummation of the transactions contemplated hereby are within the Company's corporate powers and, except for the required approval of the Company's stockholders in connection with the consummation of the Merger, have been duly authorized by all necessary corporate action. The affirmative vote of the holders of a majority of the outstanding shares of Company Stock is the only vote of the holders of any of the Company's capital stock necessary in connection with the consummation of the Merger. No other vote of the holders of the Company's capital stock is necessary in connection with this Agreement or the consummation of the transactions contemplated hereby. This Agreement constitutes a valid and binding agreement of the Company.

(b) The Company's Board of Directors, at a meeting duly called and held, has (i) determined that this Agreement, and the transactions contemplated hereby (including the Merger) are fair to and in the best interests of the Company's stockholders, (ii) approved and adopted this Agreement and the transactions contemplated hereby (including the Merger), and (iii) resolved (subject to Section 5.2) to recommend approval and adoption of this Agreement by its stockholders.

Section 3.3. Governmental Authorization. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby require no action by or in respect of, or filing with, any governmental body, agency, official or authority other than (a) the filing of a certificate of merger in accordance with Delaware Law, (b) compliance with any applicable requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act"), the Securities Act of 1933 ("1933 Act"), the Securities Exchange Act of 1934 ("1934 Act"), and foreign or state securities or Blue Sky laws, and (c) any other filings, approvals or authorizations which, if not obtained, would not, individually or in the aggregate, have a material adverse effect on the Company or materially impair the ability of the Company to consummate the transactions contemplated by this Agreement.

Section 3.4. Non-contravention. The execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby do not and will not (i) violate the certificate of incorporation or bylaws of the Company, (ii) assuming compliance with the matters referred to in Section 3.3, violate any applicable law, rule, regulation, judgment, injunction, order or decree, (iii) require any consent or other action by any person under, give rise to any right of first refusal or similar right of any third party under, constitute a default under, or give rise to any right of termination, cancellation or acceleration of any right or obligation of the Company or any of its subsidiaries or to a loss of any benefit to which the Company or any of its subsidiaries is entitled under any provision of any agreement or other instrument binding upon the Company or any of its subsidiaries or any license, franchise, permit, certificate, approval or other similar authorization affecting, or relating in any way to, the assets or business of the Company or any of its subsidiaries or (iv) result in the creation or imposition of any Lien on any asset of the Company or any of its subsidiaries except, in the case of clauses (ii), (iii) and (iv), for such matters as would not, individually or in the aggregate, have a material adverse effect on the Company or materially impair the ability of the Company to consummate the transactions contemplated by this Agreement. "Lien" means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest,

encumbrance or other adverse claim of any kind in respect of such property or asset.

Section 3.5. Capitalization. The authorized capital stock of the Company consists of 100,000,000 shares of Company Stock and 25,000,000 shares of preferred stock, $0.01 par value. No shares of preferred stock have been issued. As of July 14, 1997, there were outstanding 54,775,499 shares of Company Stock and options to purchase an aggregate of 1,454,538 shares of Company Stock at an average exercise price of $13.70 per share (none of which were exercisable). All outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable. Except as set forth in this Section and except for changes since July 14, 1997 resulting from the exercise of employee stock options outstanding on such date, there are no outstanding (i) shares of capital stock or voting securities of the Company, (ii) securities of the Company convertible into or exchangeable for shares of capital stock or voting securities of the Company or (iii) options or other rights to acquire from the Company or other obligation of the Company to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company. There are no outstanding obligations of the Company or any of its subsidiaries to repurchase, redeem or otherwise acquire any securities referred to in clauses (i), (ii) or (iii) above.

Section 3.6. Subsidiaries. (a) Each subsidiary (as defined in Section 10.14) of the Company is a corporation duly incorporated or an entity duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, as the case may be, has all powers and all governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted, except for those licenses, authorizations, permits, consents and approvals the absence of which would not, individually or in the aggregate, have a material adverse effect on the Company. Each subsidiary of the Company is duly qualified to do business as a foreign corporation or entity, as the case may be, and is in good standing in each jurisdiction where such qualification is necessary, except for those jurisdictions where failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the Company. All subsidiaries of the Company and their respective jurisdictions of incorporation or organization, as the case may be, are identified on Schedule 3.6.

(b) All of the outstanding capital stock of, or other voting securities or ownership interests in, each subsidiary of the Company is owned by the Company, directly or indirectly, free and clear of any Lien and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests), other than any restrictions imposed under the 1933 Act. Except as set forth in this Section or in Schedule 3.6, there are no outstanding (i) shares of capital stock or other voting securities or ownership interests in any of the Company's subsidiaries, (ii) securities of the Company or any of its subsidiaries convertible into or exchangeable for shares of capital stock or other voting securities or ownership interests in any of the Company's subsidiaries or (iii) options or other rights to acquire from the Company or any of its subsidiaries, or other obligation of the Company or any of its subsidiaries to issue, any capital stock or other voting securities or ownership interests in, or any securities convertible into or exchangeable for any capital stock or other voting securities or ownership interests in, any of the Company's subsidiaries. There are no outstanding obligations of the Company or any of its subsidiaries to repurchase, redeem or otherwise acquire any of the securities referred to in clauses (i), (ii) or (iii) above.

Section 3.7. SEC Filings. (a) The Company has delivered to Parent (i) the Company's annual report on Form 10-K for the fiscal year ended December 31, 1996 ("Company 10-K"), (ii) its quarterly reports on Form 10-Q for its fiscal quarters ended after December 31, 1996, (iii) its proxy or information statements relating to meetings of, or actions taken without a meeting by, the stockholders of the Company held since December 31, 1996 and (iv) all of its other reports, statements, schedules and registration statements filed with the Securities and Exchange Commission ("SEC") since December 31, 1996 (the documents referred to in this Section 3.7(a) being referred to collectively as the "Company SEC Filings") . The Company's quarterly report on Form 10-Q for its fiscal quarter ended June 30, 1997 is referred to herein as the "Company 10-Q".

(b) As of its filing date, each Company SEC Filing complied as to form in all material respects with the applicable requirements of the 1933 Act and the 1934 Act.

(c) As of its filing date, each Company SEC Filing filed pursuant to the 1934 Act did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(d) Each such registration statement, as amended or supplemented, if applicable, filed pursuant to the 1933 Act did not, as of the date such statement or amendment became effective, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

Section 3.8. Financial Statements. The audited consolidated financial statements and unaudited consolidated interim financial statements of the Company included in the Company SEC Filings fairly present, in conformity with generally accepted accounting principles applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of the Company and its subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements). For purposes of this Agreement,

"Company Balance Sheet" means the consolidated balance sheet of the Company as of June 30, 1997 set forth in the Company 10-Q and "Company Balance Sheet Date" means June 30, 1997.

Section 3.9. Absence of Certain Changes. Since the Company Balance Sheet Date, the business of the Company and its subsidiaries has been conducted in the ordinary course consistent with past practices and there has not been:

(a) any event, occurrence, development or state of circumstances or facts which has had or is reasonably likely to have, individually or in the aggregate, a material adverse effect on the Company;

(b) other than regular quarterly dividends of not more than $0.15 per share of Company Stock payable on October 23, 1997, any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of the Company, or any repurchase, redemption or other acquisition by the Company or any of its subsidiaries of any outstanding shares of capital stock or other securities of, or other ownership interests in, the Company or any of its subsidiaries;

(c) except for amendments to the Company's Rights Agreement contemplated by Section 3.21, any amendment of any material term of any outstanding security of the Company or any of its subsidiaries;

(d) any incurrence, assumption or guarantee by the Company or any of its subsidiaries of any material indebtedness for borrowed money other than in the ordinary course and in amounts and on terms consistent with past practices;

(e) any creation or other incurrence by the Company or any of its subsidiaries of any Lien on any material asset other than in the ordinary course consistent with past practices;

(f) any making of any material loan, advance or capital contributions to or investment in any person other than loans, advances or capital contributions to or investments in wholly-owned subsidiaries of the Company made in the ordinary course consistent with past practices;

(g) any damage, destruction or other casualty loss (whether or not covered by insurance) affecting the business or assets of the Company or any of its subsidiaries which would, individually or in the aggregate, have a material adverse effect on the Company;

(h) any transaction or commitment made, or any contract or agreement entered into, by the Company or any of its subsidiaries relating to its assets or business (including the acquisition or disposition of any assets) or any relinquishment by the Company or any of its subsidiaries of any contract or other right, in either case, material to the Company and its subsidiaries, taken as a whole, other than transactions and commitments in the ordinary course consistent with past practices and those contemplated by this Agreement;

(i) any change in any method of accounting, method of tax accounting, or accounting practice by the Company or any of its subsidiaries, except for any such change required by reason of a concurrent change in generally accepted accounting principles or Regulation S-X promulgated under the 1934 Act;

(j) any (i) grant of any severance or termination pay to (x) any employee of the Company or any of its subsidiaries (other than officers (as defined in Section 10.14) or directors) other than ordinary course grants in amounts consistent with past practices or (y) any director or officer of the Company or any of its subsidiaries, (ii) increase in benefits payable under any existing severance or termination pay policies or employment agreements, (iii) entering into of any employment, deferred compensation or other similar agreement (or any amendment to any such existing agreement) with any director or officer of the Company or any of its subsidiaries, (iv) establishment, adoption or amendment (except as required by applicable law) of any collective bargaining, bonus, profit sharing, thrift, pension, retirement, deferred compensation, compensation, stock option, restricted stock or other benefit plan or arrangement covering any director, officer or employee of the Company or any of its subsidiaries, or (v) increase in compensation, bonus or other benefits payable to directors or officers;

(k) any material labor dispute, other than routine individual grievances, or, to the knowledge of the Company, any activity or proceeding by a labor union or representative thereof to organize any material number of employees of the Company or any of its subsidiaries, which employees were not subject to a collective bargaining agreement at the Company Balance Sheet Date, or any material lockouts, strikes, slowdowns, work stoppages or threats thereof by or with respect to such employees; or

(l) any tax election, other than those consistent with past practice, not required by law or any settlement or compromise of any tax liability in either case that is material to the Company and its subsidiaries, taken as a whole.

Section 3.10. No Undisclosed Material Liabilities. There are no liabilities of the Company or any of its subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability, other than:

(a) liabilities or obligations provided for in the Company Balance Sheet or disclosed in the notes thereto;

(b) liabilities or obligations which would not, individually or in the aggregate, have a material adverse effect on the Company; and

(c) liabilities or obligations under this Agreement.

Section 3.11. Compliance with Laws and Court Orders. Except as set forth in the Company SEC Filings prior to the date hereof, the Company and each of its subsidiaries is and has been in compliance with, and to the knowledge (as defined in Section 10.14) of the Company, is not under investigation with respect to and has not been threatened to be charged with or given notice of any violation of, any applicable law, rule, regulation, judgment, injunction, order or decree, except for such matters as would not, individually or in the aggregate, have a material adverse effect on the Company.

Section 3.12. Litigation. Except as set forth in the Company SEC Filings prior to the date hereof, there is no action, suit, investigation, audit or proceeding pending against, or to the knowledge of the Company threatened against or affecting, the Company or any of its subsidiaries or any of their respective properties before any court or arbitrator or any governmental body, agency or official which would, individually or in the aggregate, have a material adverse effect on the Company.

Section 3.13. Advisors' Fees. Except for Goldman, Sachs & Co., a copy of whose engagement agreement has been provided to Parent, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of the Company or any of its subsidiaries who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement.

Section 3.14. Taxes. Except as set forth in the Company Balance Sheet (including the notes thereto) and except as would not, individually or in the aggregate, have a material adverse effect on the Company, (i) all tax returns, statements, reports and forms (collectively, the "Company Returns") required to be filed with any taxing authority by, or with respect to, the Company and its subsidiaries have been filed in accordance with all applicable laws; (ii) the Company and its subsidiaries have timely paid all taxes shown as due and payable on the Company Returns that have been so filed, and, as of the time of filing, the Company Returns correctly reflected the facts regarding the income, business, assets, operations, activities and the status of the Company and its subsidiaries (other than taxes which are being contested in good faith and for which adequate reserves are reflected on the Company Balance Sheet); (iii) the Company and its subsidiaries have made provision for all taxes payable by the Company and its subsidiaries for which no Company Return has yet been filed; (iv) the charges, accruals and reserves for taxes with respect to the Company and its subsidiaries reflected on the Company Balance Sheet are adequate under United States generally accepted accounting principles ("GAAP") to cover the tax liabilities accruing through the date thereof; (v) there is no action, suit, proceeding, audit or claim now proposed or pending against or with respect to the Company or any of its subsidiaries in respect of any tax where there is a reasonable possibility of an adverse determination; and (vi) except as set forth in Schedule 3.14, neither the Company nor any of its subsidiaries has been a member of an affiliated, consolidated, combined or unitary group other than one of which the Company was the common parent.

Section 3.15. Employee Benefit Plans. (a) The Company has provided Parent with a list identifying each material "employee benefit plan", as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974 ("ERISA"), each employment, severance or similar contract, plan, arrangement or policy applicable to any director or officer of the Company and each material plan or arrangement, (written or oral), providing for compensation, bonuses, profit-sharing, stock option or other stock related rights or other forms of incentive or deferred compensation, vacation benefits, insurance coverage (including any self-insured arrangements), health or medical benefits, disability benefits, workers' compensation, supplemental unemployment benefits, severance benefits and post-employment or retirement benefits (including compensation, pension, health, medical or life insurance benefits) which is maintained, administered or contributed to by the Company or any of its affiliates (as defined in Section 10.14) and covers any employee or former employee of the Company or any of its affiliates, or under which the Company or any of its affiliates has any liability. Such plans are referred to collectively herein as the "Company Employee Plans". Copies of all such Company Employee Plans (and, if applicable, related trust agreements) and all amendments thereto and written interpretations thereof have been furnished to Parent together with the most recent annual report (Form 5500 including, if applicable, Schedule B thereto) prepared in connection with any such Plan.

(b) Each Company Employee Plan has been funded and maintained in compliance with its terms and with the requirements prescribed by any and all statutes, order, rules and regulations (including but not limited to ERISA and the Code) which are applicable to such Plan, except where failure to so comply would not, individually or in the aggregate, have a material adverse effect on the Company.

(c) At no time has the Company or any person who was at that time an affiliate of the Company maintained an employee benefit plan subject to Title IV of ERISA.

(d) Each Company Employee Plan which is intended to be qualified under Section 401(a) of the Code is so qualified and has been so qualified during the period from its adoption to date, and each trust forming a part thereof is exempt from tax pursuant to Section 501(a) of the Code.

(e) No director or officer or, to the knowledge of the Company, other employee of the Company or any of its subsidiaries will become entitled to any retirement, severance or similar benefit or enhanced or accelerated benefit solely as a result of the transactions contemplated hereby. Without

limiting the generality of the foregoing, no amount required to be paid or payable to or with respect to any employee of the Company or any of its subsidiaries in connection with the transactions contemplated hereby (either solely as a result thereof or as a result of such transactions in conjunction with any other event) will be an "excess parachute payment" within the meaning of Section 280G of the Code.

(f) There has been no amendment to, written interpretation or announcement (whether or not written) by the Company or any of its affiliates relating to, or change in employee participation or coverage under, any Company Employee Plan which would increase materially the expense of maintaining such Company Employee Plan above the level of the expense incurred in respect thereof for the 12 months ended on the Company Balance Sheet Date.

Section 3.16. Environmental Matters. (a) Except as set forth in the Company SEC Filings prior to the date hereof and except as would not, individually or in the aggregate, have a material adverse effect on the Company,

(i) no notice, notification, demand, request for information, citation, summons or order has been received, no complaint has been filed, no penalty has been assessed, and no investigation, action, claim, suit, proceeding or review is pending or, to the knowledge of the Company, is threatened by any governmental entity or other person relating to or arising out of any Environmental Law;

(ii) the Company is and has been in compliance with all Environmental Laws and all Environmental Permits; and

(iii) there are no liabilities of or relating to the Company or any of its subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise arising under or relating to any Environmental Law and there are no facts, conditions, situations or set of circumstances which could reasonably be expected to result in or be the basis for any such liability.

(b) Neither the Company nor any of its subsidiaries owns or leases or has owned or leased any real property in New Jersey or Connecticut.

(c) The following terms shall have the meaning set forth below:

"Company" and "its subsidiaries" shall, for purposes of this Section, include any entity which is, in whole or in part, a corporate predecessor of the Company or any of its subsidiaries.

"Environmental Laws" means any federal, state, local or foreign law (including, without limitation, common law), treaty, judicial decision, regulation, rule, judgment, order, decree, injunction, permit or governmental restriction or requirement or any agreement with any governmental authority or other third party, relating to human health and safety or the environment and arising from the use, presence, disposal, discharge or release of pollutants, contaminants, wastes or chemicals or any toxic, radioactive, ignitable, corrosive, reactive or otherwise hazardous substances, wastes or materials.

"Environmental Permits" means, with respect to any person, all permits, licenses, franchises, certificates, approvals and other similar authorizations of governmental authorities relating to or required by Environmental Laws and affecting, or relating in any way to, the business of such person as currently conducted.

Section 3.17. Tax Treatment. Neither the Company nor any of its affiliates has taken or agreed to take any action that would prevent the Merger from qualifying as a reorganization within the meaning of Section 368 of the Code (a "368 Reorganization").

Section 3.18. Opinion of Financial Advisor. The Company's Board of Directors has received the opinion of Goldman, Sachs & Co., financial advisor to the Company, to the effect that, as of the date of this Agreement, the Merger Consideration is fair to the Company's stockholders.

Section 3.19. Patents and Other Proprietary Rights. The Company and its subsidiaries have rights to use, whether through ownership, licensing or otherwise, all patents, trademarks, service marks, trade names, copyrights, trade secrets, and other proprietary rights and processes of which the Company is aware that are material to its business as now conducted (collectively the "Company Intellectual Property Rights"). Except for such matters as would not, individually or in the aggregate, have a material adverse effect on the Company, (a) the Company and its subsidiaries have not assigned, hypothecated or otherwise encumbered any of the Company Intellectual Property Rights and (b) none of the licenses included in the Company Intellectual Property Rights purports to grant sole or exclusive licenses to another person including, without limitation, sole or exclusive licenses limited to specific fields of use. To the best of the Company's knowledge, the patents owned by the Company and its subsidiaries are valid and enforceable and any patent issuing from patent applications of the Company and its subsidiaries will be valid and enforceable, except as such invalidity or unenforceability would not, individually or in the aggregate, have a material adverse effect on the Company. The Company has no knowledge of any infringement by any other person of any of the Company Intellectual Property Rights, and the Company and its subsidiaries have not, to the Company's knowledge, entered into any agreement to indemnify any other party against any charge of infringement of any of the Company Intellectual Property Rights, except for such matters as would not, individually or in the aggregate, have a material adverse effect on the Company. To the best of the Company's knowledge, the Company and its subsidiaries have not and do not violate or infringe any intellectual property right of any other person, and neither the Company nor any of its subsidiaries have received any communication alleging

that it violates or infringes the intellectual property right of any other person, except for such matters as would not, individually or in the aggregate, have a material adverse effect on the Company. Except for such matters as would not, individually or in the aggregate, have a material adverse effect in the Company, the Company and its subsidiaries have not been sued for infringing any intellectual property right of another person. None of the Company Intellectual Property Rights or other know-how relating to the business of the Company and its subsidiaries, the value of which to the Company is contingent upon maintenance of the confidentiality thereof, has been disclosed by the Company or any affiliate thereof to any person other than those persons who are bound to hold such information in confidence pursuant to confidentiality agreements or by operation of law.

Section 3.20. Status and Operation of Oil and Gas Properties. Except as set forth in Schedule 3.20:

(a) The Leases are in full force and effect in accordance with their respective terms, all obligations of the Company under the Leases have been fully performed and there are currently pending no requests or demands for payments, adjustments of payments or performance pursuant to obligations under the Leases, except where the failure of such Leases to be in full force and effect in accordance with their terms, the failure to perform thereunder or the pendency of such requests or demands, individually or in the aggregate, has not had, and would not reasonably be expected to have, a material adverse effect on the Company;

(b) The Oil and Gas Contracts of the Company or any of its subsidiaries are in full force and effect in accordance with their respective terms, except for any such Oil and Gas Contracts the termination of which, individually or in the aggregate, has not had, and would not reasonably be expected to have, a material adverse effect on the Company; and

(c) Neither the Company nor any of its subsidiaries has (i) sold forward a material amount of any Hydrocarbons for which it has not yet received payment, (ii) received any material advance, "take-or-pay" or other similar payments under production sales contracts that entitle the purchasers to "make up" or otherwise receive deliveries of Hydrocarbons without paying at such time the contract price therefor or (iii) taken or received any material amount of Hydrocarbons under any gas balancing agreements or any similar arrangements that permit any Person thereafter to receive any portion of the interest of the Company or any of its subsidiaries to "balance" any disproportionate allocation of Hydrocarbons.

(d) For purposes of this Section 3.20:

"Hydrocarbons" means oil, gas, minerals and other gaseous and liquid hydrocarbons or any combination thereof.

"Leases" means any oil, gas and mineral leasehold or fee interest, mineral interests, royalty interests, net profits interests, licenses, concessions, permits and other interests in Hydrocarbons in which the Company or any of its subsidiaries holds an interest, including, without limitation, those set forth in Schedule 3.20.

"Oil and Gas Contracts" means any lease, license, permit, assignment, farmout, farmin, operating agreement, unit agreement, declaration or order, joint venture or acquisition agreement, division order, production sales contract or other contract affecting the ownership or operation of any of the properties constituting the Oil and Gas Interests or the disposition of the Hydrocarbons produced therefrom.

"Oil and Gas Interests" means (a) the interests of the Company or any of its subsidiaries in the Leases, together with the interests of the Company or any of its subsidiaries in and to all property and rights incident thereto, including, without limitation, all rights in respect of any pooled or unitized acreage by virtue of any Lease being a part thereof, all production from the pool or unit allocated to any such Lease and all interests in any wells within the pool or unit associated with the Leases; and (b) the interests of the Company or any of its subsidiaries in and to all of the personal property, fixtures and improvements thereon, appurtenant thereto or used, held or obtained in connection with the Leases or the production, treatment, sale or disposal of Hydrocarbons or water or other substances produced therefrom or attributable thereto (whether located on or off the Leases, including, without limitation, wells, equipment, casing, tanks, boilers, generators, crude oil, condensate or other production in storage or in pipelines, flow lines, tubing, pumps, motors, machinery and other equipment, gathering systems and field separators) and all other tenements, hereditaments, improvements and appurtenances thereunto belonging.

Section 3.21. Antitakeover Statutes and Rights Agreement. The Board of Directors of the Company has approved this Agreement and the transactions contemplated hereby, and neither Section 203 of the Delaware Law nor any other antitakeover or similar statute or regulation applies or purports to apply to the transactions contemplated hereby. The Company has taken all action necessary to render the rights issued pursuant to the terms of the Company's Rights Agreement inapplicable to the Merger, this Agreement and the other transactions contemplated hereby.

ARTICLE 4

Representations and Warranties of Parent

Parent represents and warrants to the Company that, except as disclosed in the Parent Schedule of Exceptions:

Section 4.1. Corporate Existence and Power. Parent is, and at

the Effective Time, Merger Subsidiary will be, a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and Parent has all corporate powers and all governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted, except for those licenses, authorizations, permits, consents and approvals the absence of which would not, individually or in the aggregate, have a material adverse effect on Parent. Parent is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where such qualification is necessary, except for those jurisdictions where failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on Parent. Parent has heretofore delivered to the Company true and complete copies of the certificate of incorporation and bylaws of Parent as currently in effect. From the date of its incorporation, Merger Subsidiary will not engage in any activities other than in connection with or as contemplated by this Agreement.

Section 4.2. Corporate Authorization. The execution, delivery and performance by Parent of this Agreement, and the consummation by Parent and Merger Subsidiary of the transactions contemplated hereby are within the corporate powers of Parent and Merger Subsidiary and have been duly authorized by all necessary corporate action. This Agreement constitutes a valid and binding agreement of Parent.

Section 4.3. Governmental Authorization. The execution, delivery and performance by Parent of this Agreement and the consummation by Parent and Merger Subsidiary of the transactions contemplated hereby require no action by or in respect of, or filing with, any governmental body, agency, official or authority other than (a) the filing of a certificate of merger in accordance with Delaware Law, (b) compliance with any applicable requirements of the HSR Act, the 1933 Act, the 1934 Act and foreign or state securities or Blue Sky laws, and (c) any other filings, approvals or authorizations which, if not obtained, would not, individually or in the aggregate, have a material adverse effect on Parent or materially impair the ability of the Parent to consummate the transactions contemplated by this Agreement.

Section 4.4. Non-contravention. The execution, delivery and performance by Parent of this Agreement, and the consummation by Parent and Merger Subsidiary of the transactions contemplated hereby do not and will not (i) violate the certificate of incorporation or bylaws of Parent or Merger Subsidiary, (ii) assuming compliance with the matters referred to in Section 4.3, violate any applicable law, rule, regulation, judgment, injunction, order or decree, (iii) require any consent or other action by any person under, give rise to any right of first refusal or similar right of any third party under, constitute a default under, or give rise to any right of termination, cancellation or acceleration of any right or obligation of Parent or any of its subsidiaries or to a loss of any benefit to which Parent or any of its subsidiaries is entitled under any provision of any agreement or other instrument binding upon Parent or any of its subsidiaries or any license, franchise, permit, certificate, approval or other similar authorization affecting, or relating in any way to, the assets or business of Parent or any of its subsidiaries or (iv) result in the creation or imposition of any Lien on any asset of Parent or any of its subsidiaries except, in the case of clauses (ii), (iii) and (iv), for such matters as would not, individually or in the aggregate, have a material adverse effect on Parent or materially impair the ability of Parent to consummate the transactions contemplated by this Agreement.

Section 4.5. Capitalization. (a) The authorized capital stock of Parent consists of 350,000,000 shares of Parent Stock, and 30,000,000 shares of preferred stock, $1.00 par value. As of August 14, 1997, there were outstanding 274,293,417 shares of Parent Stock (including 10,165,125 shares of treasury stock), 699,011 shares of Series B ESOP Convertible Preferred Stock, 56,285 shares of Series F ESOP Convertible Preferred Stock, 1,200 shares of Market Auction Preferred Stock and options to purchase an aggregate of 5,120,068 shares of Parent Stock. All outstanding shares of capital stock of Parent have been duly authorized and validly issued and are fully paid and non-assessable. Except as set forth in this Section and Schedule 4.05 and except for changes since August 14, 1997 resulting from the proposed stock split announced by Parent prior to the date hereof and the transactions contemplated hereby, the exercise of stock options or the grant of stock based compensation to directors or employees or any other issuance of Parent Stock (or any other securities referred to in this sentence) determined by Parent's Board of Directors to be in the best interests of Parent and its stockholders, there are no outstanding (i) shares of capital stock or voting securities of Parent, (ii) securities of Parent convertible into or exchangeable for shares of capital stock or voting securities of Parent or (iii) options or other rights to acquire from Parent or other obligation of Parent to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Parent. There are no outstanding obligations of Parent or any of its subsidiaries to repurchase, redeem or otherwise acquire any securities referred to in clauses (i), (ii) or (iii) above.

(b) The shares of Parent Stock to be issued as part of the Merger Consideration have been duly authorized and when issued and delivered in accordance with the terms of this Agreement, will have been validly issued and will be fully paid and non-assessable and the issuance thereof is not subject to any preemptive or other similar right.

Section 4.6. SEC Filings. (a) Parent has delivered to the Company (i) Parent's annual report on Form 10-K for the fiscal year ended December 31, 1996 ("Parent 10-K"), (ii) its quarterly reports on Form 10-Q for its fiscal quarters ended after December 31, 1996, (iii) its proxy or information statements relating to meetings of or actions taken without a meeting by Parent's stockholders held since December 31, 1996, and (iv) all of its other reports, statements, schedules and registration statements filed with the SEC since December 31, 1996 (the documents referred to in this Section 4.6(a) being referred to collectively as the "Parent SEC Filings").

The Parent's quarterly report on Form 10-Q for its fiscal quarter ended June 30, 1997 is referred to herein as the "Parent 10-Q".

(b) As of its filing date, each Parent SEC Filing complied as to form in all material respects with the applicable requirements of the 1933 Act and the 1934 Act.

(c) As of its filing date, each Parent SEC Filing filed pursuant to the 1934 Act did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(d) Each such registration statement as amended or supplemented, if applicable, filed pursuant to the 1933 Act did not, as of the date such statement or amendment became effective, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

Section 4.7. Financial Statements. The audited consolidated financial statements and unaudited consolidated interim financial statements of Parent included in the Parent SEC Filings fairly present, in conformity with generally accepted accounting principles applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Parent and its subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements). For purposes of this Agreement, "Parent Balance Sheet" means the consolidated balance sheet of Parent as of June 30, 1997 set forth in the Parent 10-Q and "Parent Balance Sheet Date" means June 30, 1997.

Section 4.8. Absence of Certain Changes. Since the Parent Balance Sheet Date, the business of Parent and its subsidiaries has been conducted in the ordinary course consistent with past practices, and there has not been:

(a) any event, occurrence, development or state of circumstances or facts which has had or is reasonably likely to have, individually or in the aggregate, a material adverse effect on Parent;

(b) other than regular quarterly dividends of not more than $0.90 per share of Parent Stock payable on March 10, June 10, September 10 and December 10 of each year and the proposed stock split announced by Parent prior to the date hereof, any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of Parent, or any repurchase, redemption or other acquisition by Parent or any of its subsidiaries of any outstanding shares of capital stock or other securities of, or other ownership interests in, the Parent or any of its subsidiaries;

(c) any change in any method of accounting, method of tax accounting, or accounting practice by Parent or any of its subsidiaries, except for any such change required by reason of a concurrent change in GAAP or Regulation S-X promulgated under the 1934 Act;

(d) any damage, destruction or other casualty loss (whether or not covered by insurance) affecting the business or assets of Parent or any of its subsidiaries which would, individually or in the aggregate, have a material adverse effect on Parent; or

(e) any material labor dispute, other than routine individual grievances, or, to the knowledge of Parent, any activity or proceeding by a labor union or representative thereof to organize any material number of employees of Parent or any of its subsidiaries, which employees were not subject to a collective bargaining agreement at the Parent Balance Sheet Date, or any material lockouts, strikes, slowdowns, work stoppages or threats thereof by or with respect to such employees.

Section 4.9. No Undisclosed Material Liabilities. There are no liabilities of Parent or any of its subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability, other than:

(a) liabilities or obligations provided for in the Parent Balance Sheet or disclosed in the notes thereto;

(b) liabilities or obligations which would not, individually or in the aggregate, have a material adverse effect on Parent; and

(c) liabilities or obligations under this Agreement.

Section 4.10. Compliance with Laws and Court Orders. Except as set forth in the Parent SEC filings prior to the date hereof, Parent and each of its subsidiaries is and has been in compliance with, and to the knowledge of Parent, is not under investigation with respect to and has not been threatened to be charged with or given notice of any violation of, any applicable law, rule, regulation, judgment, injunction, order or decree, except for such matters as would not, individually or in the aggregate, have a material adverse effect on Parent.

Section 4.11. Litigation. Except as set forth in the Parent SEC Filings prior to the date hereof, there is no action, suit, investigation, audit, or proceeding pending against, or to the knowledge of Parent threatened against or affecting, Parent or any of its subsidiaries or any of their respective properties before any court or arbitrator or any governmental body, agency or official which would, individually or in the aggregate, have a material adverse effect on Parent.

Section 4.12. Taxes. Except as set forth in the Parent Balance Sheet (including the notes thereto) and except as would not, individually or in the aggregate, have a material adverse effect on Parent, (i) all tax returns, statements, reports and forms (collectively, the "Parent Returns") required to be filed with any taxing authority by, or with respect to, Parent and its subsidiaries have been filed in accordance with all applicable laws; (ii) Parent and its subsidiaries have timely paid all taxes shown as due and payable on the Parent Returns that have been so filed, and, as of the time of filing, the Parent Returns correctly reflected the facts regarding the income, business, assets, operations, activities and the status of Parent and its subsidiaries (other than taxes which are being contested in good faith and for which adequate reserves are reflected on the Parent Balance Sheet); (iii) Parent and its subsidiaries have made provision for all taxes payable by Parent and its subsidiaries for which no Parent Return has yet been filed; (iv) the charges, accruals and reserves for taxes with respect to Parent and its subsidiaries reflected on Parent Balance Sheet are adequate under GAAP to cover the tax liabilities accruing through the date thereof; (v) there is no action, suit, proceeding, audit or claim now proposed or pending against or with respect to Parent or any of its subsidiaries in respect of any tax where there is a reasonable possibility of an adverse determination; and (vi) neither the Parent nor any of its subsidiaries has been a member of an affiliated, consolidated, combined or unitary group other than one of which the Parent was the common parent.

Section 4.13. Employee Benefit Plans. (a) Each Parent Employee Plan, as hereinafter defined, has been funded and maintained in compliance with its terms and with the requirements prescribed by any and all statutes, order, rules and regulations (including but not limited to ERISA and the Code) which are applicable to such Plan, except where failure to so comply would not, individually or in the aggregate, have a material adverse effect on Parent. For purposes of this Agreement, "Parent Employee Plan" shall mean each material "employee benefit plan" as defined in Section 3(3) of ERISA, each employment, severance or similar contract, plan, arrangement or policy and each plan or arrangement, (written or oral), providing for compensation, bonuses, profit-sharing, stock option or other stock related rights or other forms of incentive or deferred compensation, vacation benefits, insurance coverage (including any self-insured arrangements), health or medical benefits, disability benefits, workers' compensation, supplemental unemployment benefits, severance benefits and post-employment or retirement benefits (including compensation, pension, health, medical or life insurance benefits) which is maintained, administered or contributed to by Parent or any affiliate of Parent and covers any employee or former employee of Parent or any affiliate of Parent or under which Parent or any affiliate of Parent has any liability.

(b) At no time has Parent or any person who was at that time an affiliate of Parent maintained an employee benefit plan subject to Title IV of ERISA.

(c) Each Parent Employee Plan which is intended to be qualified under Section 401(a) of the Code is so qualified and has been so qualified during the period from its adoption to date, and each trust forming a part thereof is exempt from tax pursuant to Section 501(a) of the Code.

(d) Except as disclosed in writing to the Company prior to the date hereof, there has been no amendment to, written interpretation or announcement (whether or not written) by Parent or any of its affiliates relating to, or change in employee participation or coverage under, any Parent Employee Plan which would increase materially the expense of maintaining such Parent Employee Plan above the level of the expense incurred in respect thereof for the 12 months ended on the Parent Balance Sheet Date.

(e) No director or officer or, to the knowledge of Parent, other employee of Parent or any of its subsidiaries will become entitled to any retirement, severance or similar benefit or enhanced or accelerated benefit solely as a result of the transactions contemplated hereby. Without limiting the generality of the foregoing, no amount required to be paid or payable to or with respect to any employee of Parent or any of its subsidiaries in connection with the transactions contemplated hereby (either solely as a result thereof or as a result of such transactions in conjunction with any other event) will be an "excess parachute payment" within the meaning of Section 280G of the Code.

Section 4.14. Environmental Matters. Except as set forth in the Parent SEC Filings prior to the date hereof and except as would not, individually or in the aggregate, have a material adverse effect on Parent,

(i) no notice, notification, demand, request for information, citation, summons or order has been received, no complaint has been filed, no penalty has been assessed, and no investigation, action, claim, suit, proceeding or review is pending or, to the knowledge of Parent, is threatened by any governmental entity or other person relating to or arising out of any Environmental Law;

(ii) Parent is and has been in compliance with all Environmental Laws and all Environmental Permits; and

(iii) there are no liabilities of or relating to Parent or any of its subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise arising under or relating to any Environmental Law, and there are no facts, conditions, situations or set of circumstances which could reasonably be expected to result in or be the basis for any such liability.

"Parent" and "its subsidiaries" shall, for purposes of this Section, include any entity which is, in whole or in part, a corporate predecessor of Parent or any of its subsidiaries.

Section 4.15. Tax Treatment. Neither Parent nor any of its

affiliates has taken or agreed to take any action that would prevent the Merger from qualifying as a 368 Reorganization.

ARTICLE 5

Covenants of the Company

The Company agrees that:

Section 5.1. Conduct of the Company. The Company agrees that from the date hereof until the Effective Time, except with the prior written consent of Parent, the Company and its subsidiaries shall conduct their business in the ordinary course consistent with past practice and oil field practices standard in the industry and shall use their reasonable best efforts to preserve intact their business organizations and relationships with third parties and to keep available the services of their present officers and employees. Without limiting the generality of the foregoing, from the date hereof until the Effective Time:

(a) the Company will not adopt or propose any change in its certificate of incorporation or bylaws;

(b) the Company will not, and will not permit any of its subsidiaries to, merge or consolidate with any other person or acquire a material amount of assets of any other person;

(c) the Company will not, and will not permit any of its subsidiaries to, sell, lease, license or otherwise dispose of any material assets or property except (i) pursuant to existing contracts or commitments or (ii) in the ordinary course consistent with past practice;

(d) the Company will not, and will not permit any of its subsidiaries, to take any action that would make any representation and warranty of the Company hereunder materially inaccurate in any respect at, or as of any time prior to, the Effective Time; and

(e) the Company will not, and will not permit any of its subsidiaries to, agree or commit to do any of the foregoing.

Section 5.2. Stockholder Meeting; Proxy Material. (a) The Company shall cause a meeting of its stockholders (the "Company Stockholder Meeting") to be duly called and held as soon as reasonably practicable for the purpose of voting on the approval and adoption of this Agreement. In connection with such meeting, the Company will (i) promptly prepare and file with the SEC, use its reasonable best efforts to have cleared by the SEC and thereafter mail to its stockholders as promptly as practicable the proxy or information of the Company to be mailed to the Company's stockholders in connection with the Company Stockholder Meeting (the "Company Proxy Statement") and all other proxy materials for such meeting and (ii) otherwise comply with all legal requirements applicable to such meeting.

(b) Except as provided in the next sentence, the Board of Directors of the Company shall recommend approval and adoption of this Agreement by the Company's stockholders. The Board of Directors of the Company shall be permitted to withdraw or modify in a manner adverse to Parent its recommendation to its stockholders, but only if and to the extent that the Board of Directors concludes that such withdrawal or modification is required to comply with the fiduciary duties of the Board of Directors under applicable law after advice to that effect by the Company's outside counsel.

(c) The Company Proxy Statement and any amendments or supplements thereto will, when filed, comply as to form in all material respects with the applicable requirements of the 1934 Act. At the time the Company Proxy Statement or any amendment or supplement thereto is first mailed to stockholders of the Company and at the time such stockholders vote on the approval and adoption of this Agreement, the Company Proxy Statement, as supplemented or amended, if applicable, will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading. The foregoing representations and warranties will not apply to statements or omissions included in the Company Proxy Statement or any amendment or supplement thereto based upon information furnished to the Company by Parent for use (or incorporation by reference) therein.

(d) None of the information furnished to Parent for use (or incorporation by reference) in the Registration Statement (as defined in Section 6.5(a)) or any amendment or supplement thereto will contain, at the time the Registration Statement or any amendment or supplement thereto becomes effective or at the Effective Time, any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein not misleading.

Section 5.3. Other Offers. From the date hereof until the termination hereof, the Company and its subsidiaries will not, and will use its best reasonable efforts to cause the officers, directors, financial or legal advisors of the Company and its subsidiaries not to, directly or indirectly, (i) take any action to solicit, initiate or encourage any Acquisition Proposal or (ii) engage in negotiations with, or disclose any nonpublic information relating to the Company or any of its subsidiaries or afford access to the properties, books or records of the Company or any of its subsidiaries to, any person that may be considering making, or has made, an Acquisition Proposal. The Company will promptly (and in no event later than 24 hours after receipt of the relevant Acquisition Proposal) notify Parent (which notice shall be provided orally and in writing and shall identify the person making the Acquisition Proposal and set forth the material terms thereof) after receipt of any Acquisition Proposal, indication that any person

is considering making an Acquisition Proposal or request for nonpublic information relating to the Company or any of its subsidiaries or for access to the properties, books or records of the Company or any of its subsidiaries by any person who is considering making or has made an Acquisition Proposal. The Company will keep Parent fully informed of the status of any such Acquisition Proposal or request. The Company shall, and shall cause its subsidiaries and the directors, officers and financial and legal advisors of the Company and its subsidiaries to, cease immediately and cause to be terminated all activities, discussions or negotiations, if any, with any persons conducted heretofore with respect to any Acquisition Proposal. For purposes of this Agreement, "Acquisition Proposal" means any good faith offer or proposal for a merger, consolidation or other business combination involving the Company or any of its subsidiaries or the acquisition of 20% or more of the outstanding shares of capital stock of the Company, or a substantial portion of the assets of the Company or any of its subsidiaries taken as a whole, other than the transactions contemplated by this Agreement. Notwithstanding the foregoing, nothing in this Section 5.3 shall be construed to prohibit the Company or its Board of Directors from taking any actions or permitting any events described above (other than any action described in clause (i) above) to the extent required to comply with the fiduciary duties of the Board of Directors as advised in writing by Andrews & Kurth L.L.P. Nothing herein shall prevent the Board of Directors of the Company from taking, and disclosing to its stockholders, a position contemplated by Rules 14d-9 and 14e-2 promulgated under the 1934 Act with regard to any tender offer, provided, further, that the Board of Directors of the Company shall not recommend that the stockholders of the Company tender their shares in connection with any such tender offer other than to the extent required to comply with the fiduciary duties of the Board of Directors as advised in writing by Andrews & Kurth L.L.P.

ARTICLE 6

Covenants of Parent

Parent agrees that:

Section 6.1. Conduct of Parent. Parent agrees that from the date hereof until the Effective Time, Parent and its subsidiaries shall conduct their business in the ordinary course consistent with past practice and shall use their reasonable best efforts to preserve intact their business organizations and relationships with third parties. Without limiting the generality of the foregoing, and except as disclosed in the Parent Schedule of Exceptions or in connection with the proposed stock split announced by Parent prior to the date hereof, from the date hereof until the Effective Time:

(a) Parent will not adopt or propose any material change in its certificate of incorporation or bylaws;

(b) Parent will not, and will not permit any of its subsidiaries to, take any action that would make any representation and warranty of Parent hereunder inaccurate in any respect at, or as of any time prior to, the Effective Time; and

(c) Parent will not, and will not permit any of its subsidiaries to, agree or commit to do any of the foregoing.

Section 6.2. Obligations of Merger Subsidiary. Parent will take all action necessary to create Merger Subsidiary and to cause it to perform its obligations under this Agreement and to consummate the Merger on the terms and conditions set forth in this Agreement.

Section 6.3. Voting of Shares. Parent agrees to vote all shares of Company Stock beneficially owned by it in favor of adoption of this Agreement at the Company Stockholder Meeting.

Section 6.4. Director and Officer Liability; Indemnification. For six years after the Effective Time, Parent will cause the Surviving Corporation to indemnify and hold harmless the present and former officers and directors of the Company in respect of acts or omissions occurring prior to the Effective Time to the extent provided under the Company's certificate of incorporation and bylaws in effect on the date hereof. For six years after the Effective Time, Parent will cause the Surviving Corporation to use its best efforts to provide officers' and directors' liability insurance in respect of acts or omissions occurring prior to the Effective Time covering each such person currently covered by the Company's officers' and directors' liability insurance policy on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date hereof.

Section 6.5. Registration Statement; Form S-8. (a) Parent shall promptly prepare and file with the SEC under the 1933 Act the registration statement of Parent with respect to the offering of Parent Stock in connection with the Merger (the "Registration Statement") (and Registration Statements on Form S-8 as necessary to register shares of Parent Stock underlying Substitute Options), and shall use its reasonable best efforts to cause the Registration Statement (and such Registration Statements on Form S-8) to be declared effective by the SEC as promptly as practicable. Parent shall promptly take any action required to be taken under foreign or state securities or Blue Sky laws in connection with the issuance of Parent Stock in the Merger or pursuant to Substitute Options.

(b) The Registration Statement and any amendments or supplements thereto will, when filed, comply as to form in all material respects with the applicable requirements of the 1933 Act. At the time the Registration Statement or any amendment or supplement thereto becomes effective and at the Effective Time, the Registration Statement, as amended or supplemented, if applicable, shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein

or necessary in order to make the statements contained therein not misleading. The foregoing representations and warranties will not apply to statements or omissions included in the Registration Statement or any amendment or supplement thereto based upon information furnished to Parent or Merger Subsidiary by the Company for use (or incorporation by reference) therein.

(c) None of the information furnished to the Company for use (or incorporation by reference) in the Company Proxy Statement or any amendment or supplement thereto will contain, at the time the Company Proxy Statement or any amendment or supplement thereto is first mailed to stockholders of the Company or at the time the stockholders vote on the approval and adoption of this Agreement, any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

Section 6.6. Stock Exchange Listing. Parent shall use its reasonable best efforts to cause the shares of Parent Stock to be issued in connection with the Merger (and the shares of Parent Stock underlying Substitute Options) to be listed on the NYSE, subject to official notice of issuance.

Section 6.7. Employee Benefits. From the first of the month following the Effective Time, the non-represented employees of the Company and its subsidiaries will commence participation in Parent's benefit plans, subject to the provisions of such plans. Parent shall recognize an employee's service with the Company and Santa Fe Energy Resources, Inc. (the "Predecessor Company") for eligibility, vesting, accrual and determination of benefits in its benefit plans to the extent that such service was recognized for such purposes by the Company or the Predecessor Company; except with respect to pension accrual which shall be governed by the next sentence. Parent's retirement plan shall provide to each non-represented employee of the Company and its subsidiaries at normal retirement a pension benefit which will equal the pension benefit that would be provided under the Parent's retirement plan, recognizing all such employee's pensionable service with the Predecessor Company's pension plan as of the Effective Time under its non-contributory formula, less the employee's vested pension benefit accrued under the Predecessor Company's pension plan as of July 25, 1997. Such pension benefit shall be subject to all other provisions of the Parent's retirement plan. Without limiting the generality of the foregoing, for two years following the Effective Time, the Surviving Corporation shall honor the Company's severance plan in effect on the date hereof (copies of which have been provided to Parent prior to the date hereof).

Section 6.8. Standstill. (a) Except as contemplated by this Agreement and subject to Section 6.8(b), neither Parent nor any of its affiliates shall, without the prior consent of the Company, directly or indirectly, (i) effect or seek, offer or propose (whether publicly or otherwise) to effect, or cause or participate in or in any way assist any other person to effect or seek, offer or propose (whether publicly or otherwise) to effect or participate in, (w) any acquisition of any securities or rights to acquire any securities (or any other beneficial ownership thereof) or assets of the Company or any of its subsidiaries (provided that the foregoing shall not apply to any acquisition by any employee benefit plan in the ordinary course of business); (x) any merger or other business combination or tender or exchange offer involving the Company or any of its subsidiaries; (y) any recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction with respect to the Company or any of its subsidiaries; or (z) any "solicitation" of "proxies" (as such terms are used in the proxy rules of the SEC) or consents to vote or otherwise with respect to any voting securities of the Company, or make any communication exempted from the definition of "solicitation" by Rule 14a-1(1)(2)(iv) under the 1934 Act; (ii) form, join or in any way participate in a "group" (as defined under the Exchange Act) with respect to the Company; (iii) otherwise act, alone or in concert with others, to seek to control or influence the management, Board of Directors or policies of the Company; (iv) take any action which the Company has been advised by counsel would require it to make a public announcement regarding any of the types of matters set forth in (i) above; or (v) enter into any discussions or arrangements with any third party with respect to any of the foregoing.

(b) The restrictions imposed on Parent and its affiliates pursuant to Section 6.8(a) shall terminate upon the earlier of (i) June 30, 1998 and (ii) the receipt by the Company, or the public announcement, of any Acquisition Proposal by any person other than Parent or any of its affiliates.

ARTICLE 7

Covenants of Parent and the Company

The parties hereto agree that:

Section 7.1. Reasonable Best Efforts. Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions contemplated by this Agreement.

Section 7.2. Certain Filings. The Company and Parent shall cooperate with one another (i) in connection with the preparation of the Company Proxy Statement and the Registration Statement, (ii) in determining whether any action by or in respect of, or filing with, any governmental body, agency, official, or authority is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any material contracts, in connection with the consummation of the transactions contemplated by this Agreement and (iii) in taking such actions or making any such filings, furnishing information required in connection therewith or with the Company Proxy Statement or the Registration Statement and seeking timely to obtain any

such actions, consents, approvals or waivers.

Section 7.3. Public Announcements. Parent and the Company will consult with each other before issuing any press release or making any public statement with respect to this Agreement or the transactions contemplated hereby. Except as may be required by applicable law or any listing agreement with any national securities exchange as advised by counsel (i) Parent will not issue any such press release or make any such public statement prior to such consultation, and (ii) Company will not issue any such press release or make any such public statement without the prior written approval of Parent.

Section 7.4. Further Assurances. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company or Merger Subsidiary, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Merger Subsidiary, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets of the Company acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

Section 7.5. Notices of Certain Events. Each of the Company and Parent shall promptly notify the other party hereto of:

(a) any notice or other communication from any person alleging that the consent of such person is or may be required in connection with the transactions contemplated by this Agreement;

(b) any notice or other communication from any governmental or regulatory agency or authority in connection with the transactions contemplated by this Agreement; and

(c) any actions, suits, claims, investigations or proceedings commenced or, to its knowledge threatened against, relating to or involving or otherwise affecting such party that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 3.11,3.12, 3.16, 4.10, 4.11 or 4.14 (as the case may be) or that relate to the consummation of the transactions contemplated by this Agreement.

Section 7.6. Tax-free Reorganization. Prior to the Effective Time, each party shall use its best efforts to cause the Merger to qualify as a 368 Reorganization, and will not take any action reasonably likely to cause the Merger not to so qualify.

Section 7.7. Affiliates. Within 45 days following the date of this Agreement, the Company shall deliver to Parent a letter identifying all known persons who may be deemed affiliates of the Company under Rule 145 of the 1933 Act. The Company shall use its reasonable efforts to obtain a written agreement from each person who may be so deemed as soon as practicable and, in any event, at least 30 days prior to the Effective Time, substantially in the form of Exhibit A hereto.

Section 7.8. Access to Information; Confidentiality. (a) From the date hereof until the Effective Time, the Company and Parent will give to the other party, its counsel, financial advisors, auditors and other authorized representatives reasonable access to the offices, properties, books and records of such party, furnish to the other party and its representatives such financial and other data and information as such party and its representatives may reasonably request and instruct its own employees and representatives to cooperate with the other party in its investigations. Any investigation pursuant to this Section shall be conducted in such manner as not to interfere unreasonably with the conduct of the business of the Company and Parent, as the case may be. No investigation pursuant to this Section shall affect any representation or warranty made by any party hereunder.

(b) All information obtained by Parent or the Company pursuant to this Section shall be kept confidential in accordance with, and shall otherwise be subject to the terms of, the Confidentiality Agreement dated August 11, 1997 between Parent and the Company.

ARTICLE 8

Conditions to the Merger

Section 8.1. Conditions to the Obligations of Each Party. The obligations of the Company, Parent and Merger Subsidiary to consummate the Merger are subject to the satisfaction of the following conditions:

(a) this Agreement shall have been approved and adopted by the stockholders of the Company in accordance with Delaware Law and the Certificate of Incorporation of the Company;

(b) any applicable waiting period under the HSR Act relating to the Merger shall have expired or been terminated;

(c) no provision of any applicable law or regulation and no judgment, injunction, order or decree shall prohibit the consummation of the Merger;

(d) the Registration Statement shall have been declared effective and no stop order suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for such purpose shall be pending before or threatened by the SEC; and

(e) the shares of Parent Stock to be issued in the Merger (as well

as the shares of Parent Stock to be issued upon exercise of Substitute Options) shall have been approved for listing on the NYSE, subject to official notice of issuance.

Section 8.2. Conditions to the Obligations of Parent and Merger Subsidiary. The obligations of Parent and Merger Subsidiary to consummate the Merger are subject to the satisfaction of the following further conditions:

(a) the Company shall have performed in all material respects all of its obligations hereunder required to be performed by it at or prior to the Effective Time, the representations and warranties of the Company contained in this Agreement and in any certificate or other writing delivered by the Company pursuant hereto shall be true in all material respects at and as of the Effective Time as if made at and as of such time and Parent shall have received a certificate signed by an executive officer of the Company (which certificate shall not impose any personal liability on such officer) to the foregoing effect;

(b) Parent shall have received an opinion of Davis Polk & Wardwell in form and substance reasonably satisfactory to Parent, on the basis of certain facts, representations and assumptions set forth in such opinion, dated the Effective Time, to the effect that the Merger will be treated for federal income tax purposes as a reorganization qualifying under the provisions of Section 368(a) of the Code. In rendering such opinion, such counsel shall be entitled to rely upon representations of officers of Parent and the Company substantially in the form of Exhibits B and C hereto.

(c) the Company shall have received an opinion of Andrews & Kurth L.L.P., in form and substance reasonably satisfactory to Parent, on the basis of certain facts, representations and assumptions set forth in such opinion, dated the Effective Time, to the effect that neither the entry into this Agreement by the Company nor the consummation of the transactions contemplated hereby (including the Merger) will affect the tax-free status of the spinoff of the Company by the Predecessor Company completed on July 25, 1997. In rendering such opinion, such counsel shall be entitled to rely upon representations of the Company, Parent and R. Graham Whaling substantially in the form of Exhibits D, E and F hereto.

Section 8.3. Conditions to the Obligations of the Company. The obligations of the Company to consummate the Merger are subject to the satisfaction of the following further conditions:

(a) each of Parent and Merger Subsidiary shall have performed in all material respects all of its obligations hereunder required to be performed by it at or prior to the Effective Time, the representations and warranties of Parent and Merger Subsidiary contained in this Agreement and in any certificate or other writing delivered by Parent or Merger Subsidiary pursuant hereto shall be true in all material respects at and as of the Effective Time as if made at and as of such time and the Company shall have received a certificate signed by an executive officer of Parent and Merger Subsidiary (which certificate shall not impose any personal liability on such officer) to the foregoing effect;

(b) The Company shall have received an opinion of Andrews & Kurth L.L.P., in form and substance reasonably satisfactory to the Company, on the basis of certain facts, representations and assumptions set forth in such opinion, dated the Effective Time, to the effect that the Merger will be treated for federal income tax purposes as a reorganization qualifying under the provisions of Section 368(a) of the Code. In rendering such opinion, such counsel shall be entitled to rely upon representations of officers of Parent and the Company substantially in the form of Exhibits B and C hereto.

ARTICLE 9

Termination

Section 9.1. Termination. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time (notwithstanding any approval of this Agreement by the Board of Directors of the Company or Parent or the stockholders of the Company):

(a) by mutual written agreement of the Company and Parent;

(b) by either the Company or Parent, if

(i) the Merger has not been consummated on or before March 31, 1998; provided that the right to terminate this Agreement pursuant to this Section shall not be available to any party whose breach of any provision of this Agreement results in the failure of the Merger to be consummated by such time;

(ii) there shall be any law or regulation that makes consummation of the Merger illegal or otherwise prohibited or if any judgment, injunction, order or decree enjoining any party from consummating the Merger is entered and such judgment, injunction, order or decree shall have become final and non-appealable; or

(iii) this Agreement shall not have been approved and adopted in accordance with Delaware Law by the Company's stockholders at the Company Stockholder Meeting (or any adjournment thereof).

(c) by Parent, if (x) the Board of Directors of the Company shall have withdrawn or modified in a manner adverse to Parent its approval or recommendation of the Merger or (y) there shall be any breach of any provision of Section 5.2(a) or 5.3.

The party desiring to terminate this Agreement pursuant to this

Section 9.1 (other than pursuant to Section 9.1(a)) shall give notice of such termination to the other party.

Section 9.2. Effect of Termination. If this Agreement is terminated pursuant to Section 9.1, this Agreement shall become void and of no effect with no liability on the part of any party hereto, except that (i) the agreements contained in Sections 6.8, 7.8(b), 10.4, 10.6, 10.7 and 10.8 shall survive the termination hereof and (ii) no such termination shall release any party of any liabilities or damages resulting from any willful or grossly negligent breach by that party of any provision of this Agreement.

ARTICLE 10

Miscellaneous

Section 10.1. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission) and shall be given,

if to Parent or Merger Subsidiary, to:

Texaco Inc.
2000 Westchester Avenue
White Plains, New York 10650
Attention: Carl B. Davidson
Vice President and Secretary

with a copy to:

Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
Attention: William L. Rosoff

if to the Company, to:

Monterey Resources, Inc.
5201 Truxton Avenue
Bakersfield, California 93309
Attention: Terry Anderson

with a copy to:

Andrews & Kurth L.L.P.
4200 Texas Commerce Tower
Houston, Texas 77002-3090
Attention: G. Michael O'Leary

or such other address or fax number as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5 p.m. in the place of receipt and such day is a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding business day in the place of receipt.

Section 10.2. Survival of Representations and Warranties. The representations and warranties and agreements contained herein and in any certificate or other writing delivered pursuant hereto shall not survive the Effective Time except for the agreements set forth in Sections 6.4, 6.7, 10.6, 10.7 and 10.8.

Section 10.3. Amendments; No Waivers. (a) Any provision of this Agreement may be amended or waived prior to the Effective Time if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party to this Agreement or in the case of a waiver, by the party against whom the waiver is to be effective; provided that after the adoption of this Agreement by the stockholders of the Company, no such amendment or waiver shall, without the further approval of such stockholders, reduce the amount or change the kind of consideration to be received in exchange for any shares of capital stock of the Company.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 10.4. Expenses. (a) Except as otherwise provided in this Section, all costs and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost or expense.

(b) The Company agrees to pay Parent in immediately available funds by wire transfer an amount equal to $35 million in the event that this Agreement is terminated as a result of the occurrence of any of the events set forth in:

(i) Section 9.1(b)(iii), provided that (x) an Acquisition Proposal shall have been publicly announced at any time prior to the date of such stockholder vote, and provided further that (y) the Company shall have entered into, or shall have publicly announced its intention to enter into, an agreement or an agreement in principle with respect to any Acquisition Proposal prior to June 30, 1998; or

(ii) Section 9.1(c).

Any amounts payable pursuant to this Section 10.4(b) shall be paid promptly, but in no event later than two business days, after the date of the event described in clause (i)(y) or, in the case of clause (ii), after the date of such termination.

Section 10.5. Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of each other party hereto, except that Parent or Merger Subsidiary may transfer or assign, in whole or from time to time in part, to one or more of their affiliates, the right to enter into the transactions contemplated by this Agreement, but any such transfer or assignment will not relieve Parent or Merger Subsidiary of its obligations hereunder.

Section 10.6. Governing Law. This Agreement shall be governed by and construed in accordance with the law of the State of Delaware.

Section 10.7. Jurisdiction. Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby may be brought in any federal court located in White Plains, New York, and each of the parties hereby consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding which is brought in any such court has been brought in an inconvenient form. Process in any such suit, action or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any such court. Without limiting the foregoing, each party agrees that service of process on such party as provided in Section 10.1 shall be deemed effective service of process on such party.

Section 10.8. Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 10.9. Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto. No provision of this Agreement is intended to confer upon any person other than the parties hereto any rights or remedies hereunder, provided that the provisions of Section 6.4 concerning insurance and indemnification and intended for the benefit of individuals referred to therein.

Section 10.10. Entire Agreement. This Agreement and the Confidentiality Agreement constitute the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior agreements and understandings, both oral and written, between the parties with respect to the subject matter hereof and thereof.

Section 10.11. Captions. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

Section 10.12. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any parts. Upon such a determination, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

Section 10.13. Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof in addition to any other remedy to which they are entitled at law or in equity.

Section 10.14. Definitions and Usage. (a) For purposes of this Agreement:

"affiliate" means, with respect to any person, any other person directly or indirectly controlling, controlled by, or under common control with such person.

"knowledge" of any person which is not an individual means the knowledge of such person's officers after reasonable inquiry.

"material adverse effect" means, when used in connection with Parent or the Company, any change, effect, event, occurrence or state of facts that has had, or would reasonably be expected to have, a material adverse effect on the business, operations, assets, liabilities, condition (financial or otherwise) or results of operations of Parent and its subsidiaries, taken as a whole, or the Company and its subsidiaries, taken as a whole, as the case may be.

"officer" means in the case of Parent and the Company, any

executive officer of Parent or the Company, as applicable, within the meaning of Rule 3b-7 of the 1934 Act.

"person" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"subsidiary" means, with respect to any person, any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at any time directly or indirectly owned by such person.

A reference in this Agreement to any statute shall be to such statute as amended from time to time, and to the rules and regulations promulgated thereunder.

(b) Each of the following terms is defined in the Section set forth

1933 Act	3.3
1934 Act	3.3
368 Reorganization	3.17
Acquisition Proposal	5.3
Company 10-K	3.6
Company 10-Q	3.7(a)
Company Balance Sheet	3.8
Company Balance Sheet Date	3.8
Company Employee Plans	3.15(a)
Company Proxy Statement	5.2(a)
Company SEC Filings	3.7(a)
Company Stock	1.2(a)
Company Stockholder Meeting	5.2(a)
Delaware Law	1.1(a)
Effective Time	1.1(b)
Environmental Laws	3.16(c)
Environmental Permits	3.16(c)
ERISA	3.15(a)
GAAP	3.14
HSR Act	3.3
Hydrocarbons	3.20(d)
Leases	3.20(d)
Lien	3.4
Merger	1.1
Merger Consideration	1.2(a)
NYSE	1.2(a)
Oil and Gas Contracts	3.20(d)
Oil and Gas Leases	3.20(d)
Parent 10-K	4.6(a)
Parent 10-Q	4.6(a)
Parent Balance Sheet	4.7
Parent Balance Sheet Date	4.7
Parent Employee Plan	4.13
Parent SEC Filings	4.6(a)
Parent Stock	1.2(a)
Predecessor Company	6.7
Registration Statement	6.5(a)
SEC	3.7(a)(iv)
Surviving Corporation	1.1(a)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

MONTEREY RESOURCES, INC.

By: /s/ R. Graham Whaling

R. Graham Whaling
Chairman and Chief Executive Officer

TEXACO INC.

By: /s/ Claire S. Farley

Claire S. Farley
Vice President

EXHIBIT A TO
THE MERGER AGREEMENT

AFFILIATE LETTER

_____, 1997

TO:
Texaco Inc.
Monterey Resources, Inc.

Ladies and Gentlemen:

The undersigned has been advised that as of the date of this letter the undersigned may be deemed to be an "affiliate" of Monterey Resources, Inc., a Delaware corporation ("Company"), as the term "affiliate" is defined for purposes of paragraphs (c) and (d) of Rule 145 of the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"). Pursuant to the terms of the Agreement and Plan of Merger dated as of August 17, 1997 (the "Agreement") between Company and Texaco Inc., a Delaware corporation ("Parent"), a wholly owned subsidiary of Parent ("Merger Subsidiary") will be merged with and into Company with Company to be the surviving corporation in the merger (the "Merger").

As a result of the Merger, the undersigned will receive shares of Common Stock, par value $6.25 per share, of Parent (the "Parent Common Stock") in exchange for shares owned by the undersigned of Common Stock, par value $0.01 per share, of Company (the "Company Common Stock").

The undersigned represents, warrants and covenants to Parent and Company that as of the date the undersigned receives any Parent Common Stock as a result of the Merger:

A. The undersigned shall not make any sale, transfer or other disposition of the Parent Common Stock in violation of the Act or the Rules and Regulations.

B. The undersigned has carefully read this letter and the Agreement and discussed the requirements of such documents and other applicable limitations upon the undersigned's ability to sell, transfer or otherwise dispose of the Parent Common Stock to the extent the undersigned felt necessary with the undersigned's counsel or counsel for Company.

C. The undersigned has been advised that the issuance of Parent Common Stock to the undersigned pursuant to the Merger will be registered with the Commission under the Act on a Registration Statement on Form S-4. However, the undersigned has also been advised that, since at the time the Merger is submitted for a vote of the stockholders of Company, the undersigned may be deemed to be an affiliate of Company, the undersigned may not sell, transfer or otherwise dispose of the Parent Common Stock issued to the undersigned in the Merger unless (i) such sale, transfer or other disposition has been registered under the Act, (ii) such sale, transfer or other disposition is made in conformity with Rule 145 promulgated by the Commission under the Act, or (iii) in the opinion of counsel reasonably acceptable to Parent, or pursuant to a "no action" letter obtained by the undersigned from the staff of the Commission, such sale, transfer or other disposition is otherwise exempt from registration under the Act.

D. The undersigned understands that Parent is under no obligation to register the sale, transfer or other disposition of the Parent Common Stock by the undersigned or on the undersigned's behalf under the Act or to take any other action necessary in order to enable such sale, transfer or other disposition by the undersigned in compliance with an exemption from such registration.

E. The undersigned further understands and agrees that the representations, warranties, covenants and agreements of the undersigned set forth herein are for the benefit of Parent, Company and the Surviving Corporation (as defined in the Merger Agreement) and will be relied upon by such entities and their respective counsel and accountants.

F. The undersigned understands and agrees that this letter agreement shall apply to all shares of the capital stock of Parent and Company that are deemed to be beneficially owned by the undersigned pursuant to applicable federal securities laws.

Execution of this letter should not be considered an admission on the part of the undersigned that the undersigned is an "affiliate" of Company as described in the first paragraph of this letter or as a waiver of any rights the undersigned may have to object to any claim that the undersigned is such an affiliate on or after the date of this letter.

Very truly yours,

By: _____
Name:

Accepted this ____ day of
_____, 1997.

PARENT

By: _____
Name:
Title:

EXHIBIT B TO
THE MERGER AGREEMENT

PARENT CORPORATION REPRESENTATION LETTER

[Effective Time]

Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017

Andrews & Kurth, L.L.P.
4200 Texas Commerce Tower
600 Travis
Houston, TX 77002

Ladies and Gentlemen:

In connection with the opinion to be delivered pursuant to Sections 8.2(b) and 8.3(b) of the Agreement and Plan of Merger (the "Agreement")(1) dated as of August 17, 1997, between Texaco Inc., a Delaware corporation ("Parent") and Monterey Resources, Inc., a Delaware corporation ("Company"), the undersigned officers of Parent and Merger Subsidiary hereby certify and represent as to Parent and Merger Subsidiary that the facts relating to the merger (the "Merger") of Merger Subsidiary with and into Company pursuant to the Agreement and as described in the Company Proxy Statement dated _____, 1997 (the "Proxy Statement") are true, correct and complete in all respects at the Effective Time and that:

- ---------------
(1) References contained in this Certificate to the Agreement include, unless the context otherwise requires, each document attached as an exhibit or annex thereto. Capitalized terms are defined as in the Agreement and Plan of Merger.

1. The consideration to be received in the Merger by holders of common stock of the Company ("Company Stock") was determined by arm's length negotiations between the managements of Parent and Company. In connection with the Merger, no holder of Company Stock will receive in exchange for such stock, directly or indirectly, any consideration other than Parent Stock and, in lieu of fractional shares of Parent Stock, cash.

2. To the knowledge of the management of Parent and Merger Subsidiary, there is no plan or intention on the part of the holders of Company Stock to sell, exchange, transfer or otherwise dispose (including by transactions such as a short sale or an equity swap which would have the economic effect of a disposition) of a number of shares of Parent Stock to be received by them in connection with the Merger that would reduce the Company shareholders' ownership of Parent Stock to a number of shares having a value, as of the Effective Time, of less than 50% of the total value of all of the formerly outstanding stock of Company immediately prior to the Effective Time. For purposes of this representation, shares of Company Stock exchanged for cash or other property or exchanged for cash in lieu of fractional shares of Parent Stock are treated as outstanding shares of Company Stock at the Effective Time. Moreover, shares of Company Stock that are sold, redeemed or disposed of prior to the Merger and in contemplation or as part of the Merger, and shares of Parent Stock that are held by holders of Company Stock at or prior to the Effective Time and that are otherwise sold, redeemed, or disposed of subsequent to the Merger will be taken into account for purposes of this representation.

3. After the Merger, to the knowledge of the management of Parent, Company will hold at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets held by Merger Subsidiary immediately prior to the Merger, and at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets held by Company immediately prior to the Merger. For purposes of this representation, assets of Merger Subsidiary or Company held immediately prior to the Merger include amounts paid or incurred by Merger Subsidiary or Company in connection with the Merger, including amounts used to pay reorganization expenses and all payments, redemptions and distributions made in contemplation or as part of the Merger. Any dispositions in contemplation or as part of the Merger of assets held by Merger Subsidiary prior to the Merger will be for fair market value.

4. Prior to the Merger, Parent will be in control of Merger Subsidiary within the meaning of Section 368(c) of the Internal Revenue Code of 1986, as amended (the "Code"). Merger Subsidiary has been formed solely in order to consummate the Merger, and at no time has or will Merger Subsidiary conduct any business activities or other operations of any kind other than the issuance of its stock to Parent prior to the Effective Time.

5. Following the Merger, Company has no plan or intention to issue and Parent has no plan or intention to cause Company to issue additional shares of stock that would result in Parent losing control of Company within the meaning of Section 368(c) of the Code.

6. Neither Parent nor any corporation affiliated with Parent has any plan or intention to purchase, redeem or otherwise acquire any of the Parent Stock issued pursuant to the Merger.

7. Parent has no plan or intention to liquidate Company, to merge Company with or into another corporation, to sell, exchange, transfer or otherwise dispose of any stock of Company or to cause Company to sell, exchange, transfer or otherwise dispose of any of its assets or of any assets acquired from Merger Subsidiary in the Merger, except for (i) dispositions made in the ordinary course of business, (ii) transfers described in Section 368(a)(2)(C) of the Code, or (iii) asset dispositions to the extent that all such dispositions, sale, transfer or exchange of assets will not, in the aggregate, violate paragraph 3 of this letter.

8. In the Merger, Merger Subsidiary will have no liabilities assumed by Company and will not transfer to Company any assets subject to liabilities.

9. Following the Merger, Company will continue (and Parent will cause Company to continue) its historic business or use a significant portion of its historic business assets in a business.

10. Parent and Merger Subsidiary each will pay its or their own expenses, if any, incurred in connection with or as part of the Merger or related transactions. Neither Parent nor Merger Subsidiary has paid or will pay, directly or indirectly, any expenses (including transfer taxes) incurred by any holder of Company Stock in connection with or as part of the Merger or any related transactions. Neither Parent nor Merger Subsidiary has agreed to assume, nor will it directly or indirectly assume, any expense or other liability, whether fixed or contingent, of any holder of Company Stock.

11. There is no intercorporate indebtedness existing between Parent and Company or between Merger Subsidiary and Company that was issued, acquired or will be settled at a discount.

12. All shares of Parent Stock into which shares of Company Stock will be converted pursuant to the Merger will be newly issued or treasury shares, and will be issued by Parent directly to holders of Company Stock pursuant to the Merger.

13. In the Merger, shares of Company Stock representing control of Company, as defined in Section 368(c) of the Code, will be exchanged solely for voting stock of Parent. For purposes of this representation, any shares of Company Stock exchanged for cash or other property will be treated as outstanding Company Stock at the Effective Time.

14. In the Merger, no liabilities of shareholders of Company will be assumed by Parent, and none of the Company Stock acquired by Parent will be subject to liabilities. Furthermore, there is no plan or intention for Parent to assume any liabilities of Company.

15. Neither Parent nor Merger Subsidiary is an "investment company" within the meaning of Section 368(a)(2)(F) of the Code.

16. The payment of cash in lieu of fractional shares of Parent Stock to holders of Company Stock is solely for the purpose of avoiding the expense and inconvenience to Parent of issuing fractional shares and does not represent separately bargained for consideration. The total cash consideration that will be paid in the Merger to the holders of Company Stock instead of issuing fractional shares of Parent Stock will not exceed one percent of the total consideration that will be issued in the Merger to the holders of Company Stock with respect to their shares of Company Stock. The fractional share interests in Parent of each holder of Company Stock will be aggregated, and no holder of Company Stock will receive cash in an amount equal to or greater than the value of one full share of Parent Stock.

17. None of the employee compensation received by any shareholder-employees of Company is or will be separate consideration for, or allocable to, any of their shares of Company Stock to be surrendered in the Merger. None of the shares of Parent Stock to be received by any shareholder-employee of Company in the Merger is or will be separate consideration for, or allocable to, any employment, consulting or similar arrangement. Any compensation paid or to be paid to any shareholder of Company who will be an employee of or perform advisory services for Parent, Merger Subsidiary, Company, or any affiliate thereof after the Merger, will be determined by bargaining at arm's length.

18. During the past 5 years, none of Parent or any subsidiary thereof has owned or owns, beneficially or of record, any class of stock of Company or any securities of Company or any instrument giving the holder the right to acquire any such stock or securities.

19. The Merger is being effected for bona fide business reasons and will be carried out strictly in accordance with the Agreement, as described in the Proxy Statement, and none of the material terms and conditions therein have been or will be waived or modified.

20. The Merger Agreement and the documents described in the Merger Agreement represent the entire understanding of Parent, Merger Subsidiary, and Company with respect to the Merger.

21. Neither Parent nor Merger Subsidiary will take any position on any Federal, state or local income or franchise tax return, or take any other tax reporting position, that is inconsistent with the treatment of the Merger as a reorganization within the meaning of Section 368(a) of the Code, unless otherwise required by a "determination" (as defined in Section 1313(a)(1) of the Code) or by applicable state or local income or franchise tax law.

We understand that Davis Polk & Wardwell and Andrews & Kurth, L.L.P. will rely on this Certificate in rendering their opinions as to certain United States Federal income tax consequences of the Merger and we will promptly and timely inform them if, after signing this Certificate, we have reason to believe that any of the facts described herein or in the Proxy Statement or any of the representations made in this Certificate are untrue, incorrect or incomplete in any respect.

Very truly yours,

TEXACO INC.

By:_____

Title:_____

MERGER SUBSIDIARY

By:_____

Title:_____

EXHIBIT C TO
THE MERGER AGREEMENT

COMPANY REPRESENTATION LETTER

[Effective Time]

Andrews & Kurth, L.L.P.
4200 Texas Commerce Tower
600 Travis
Houston, TX 77002

Davis Polk & Wardwell
450 Lexington Avenue
New York, NY 10017

Ladies and Gentlemen:

In connection with the opinions to be delivered pursuant to Sections 8.2(b) and 8.3(b) of the Agreement and Plan of Merger (the "Agreement")(1) dated August 17, 1997, between Texaco Inc., a Delaware corporation ("Parent") and Monterey Resources, Inc., a Delaware corporation ("Company"), the undersigned officers of Company hereby certify and represent as to Company that the facts relating to the merger (the "Merger") of Merger Subsidiary with and into Company pursuant to the Agreement and as described in the Company Proxy Statement dated _____, 1997 (the "Proxy Statement") are true, correct and complete in all respects at the Effective Time and that:

1. The consideration to be received in the Merger by holders of common stock of the Company ("Company Stock") was determined by arm's length negotiations between the managements of Parent and Company. In connection with the Merger, no holder of Company Stock will receive in exchange for such stock, directly or indirectly, any consideration other than Parent Stock and, in lieu of fractional shares of Parent Stock, cash.

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(1) References contained in this Certificate to the Agreement include, unless the context otherwise requires, each document attached as an exhibit or annex thereto. Capitalized terms are defined as in the Agreement and Plan of Merger.

2. There is no plan or intention by any of the holders of Company Stock who own 5% or more of the Company Stock, and to the knowledge of the management of Company, there is no plan or intention on the part of the remaining holders of Company Stock to sell, exchange, transfer or otherwise dispose (including by transactions such as a short sale or an equity swap which would have the economic effect of a disposition) of a number of shares of Parent Stock to be received by them in connection with the Merger that would reduce the Company shareholders' ownership of Parent Stock to a number of shares having a value, as of the Effective Time, of less than 50% of the total value of all of the formerly outstanding stock of Company immediately prior to the Effective Time. For purposes of this representation, shares of Company Stock exchanged for cash or other property or exchanged for cash in lieu of fractional shares of Parent Stock are treated as outstanding shares of Company Stock at the Effective Time. Moreover, shares of Company Stock that are sold, redeemed or disposed of prior to the Merger and in contemplation or as part of the Merger, and shares of Parent Stock that are held by holders of Company Stock at or prior to the Effective Time and that are otherwise sold, redeemed or disposed of subsequent to the Merger will be taken into account for purposes of this representation.

3. After the Merger, to the knowledge of the management of Company, Company will hold at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets held by Merger Subsidiary immediately prior to the Merger and at least 90% of the fair market value of the net assets and at least 70% of the fair market value of the gross assets held by Company immediately prior to the Merger. For purposes of this representation, assets of Merger Subsidiary or Company held immediately prior to the Merger include amounts paid or incurred by Merger Subsidiary or Company in connection with the Merger, including amounts used to pay Company's reorganization expenses and all payments, redemptions and distributions (except for regular, normal dividends, if any) made in contemplation or as part of the Merger. Any dispositions in contemplation or as part of the Merger of assets held by Company prior to the Merger will be for fair market value.

4. The Company has no plan or intention to issue additional shares of its stock that would result in Parent losing control (within the meaning of Section 368(c) of the Code) of the Company.

5. No assets of Company have been sold, transferred or otherwise disposed of which would prevent Parent from continuing the historic business of Company or from using a significant portion of Company's historic business assets in a business following the merger, and Company intends to continue its historic business or use a significant portion of its historic business assets in a business.

6. Company and the holders of Company Stock each will pay its or their own expenses, if any, incurred in connection with or as part of the Merger or related transactions. Company has not paid or will not pay, directly or indirectly, any expenses (including transfer taxes) incurred by any holder of Company Stock in connection with or as part of the Merger or any related transactions. Company has not agreed to assume, nor will it directly or indirectly assume, any expense or other liability, whether fixed or contingent, of any holder of Company Stock.

7. There is no intercorporate indebtedness existing between Parent and Company or between Merger Subsidiary and Company that was issued, acquired or will be settled at a discount.

8. Company has no authorized stock other than common stock par value $.01 per share, and preferred stock, par value $.01 per share. At the date hereof, the only capital stock of Company issued and outstanding is Company Stock.

9. In the Merger, Company Stock representing control of Company, as defined in Section 368(c) of the Code, will be exchanged solely for voting stock of Parent. For purposes of this representation, any shares of Company Stock exchanged for cash or other property will be treated as outstanding Company Stock at the Effective Time.

10. There exist no options, warrants, convertible securities or other rights to acquire Company Stock, other than rights pursuant to employee stock options and employee stock purchase plans in existence as of the date of the Agreement.

11. In the Merger, no liabilities of the shareholders of Company will be assumed by Parent and none of the Company Stock acquired by Parent will be subject to liabilities. Furthermore, to the knowledge of the management of Company, there is no plan or intention for Parent to assume any liabilities of Company.

12. Company is not an "investment company" within the meaning of Section 368(a)(2)(F) of the Code.

13. Company is not under the jurisdiction of a court in a Title 11 or similar case within the meaning of Section 368(a)(3)(A) of the Code.

14. At the Effective Time, the total fair market value of the assets of Company exceeds the total liabilities of Company assumed, including the amount of any liabilities to which the assets of Company are subject.

15. The payment of cash in lieu of fractional shares of Parent stock to holders of Company Stock is solely for the purpose of avoiding the expense and inconvenience to Parent of issuing fractional shares and does not represent separately bargained for consideration. The total cash consideration that will be paid in the Merger to the holders of Company Stock instead of issuing fractional shares of Parent Stock will not exceed one percent of the total consideration that will be issued in the Merger to the holders of Company Stock with respect to their shares of Company Stock. The fractional share interests in Parent of each holder of Company Stock will be aggregated, and no holder of Company Stock will receive cash in an amount equal to or greater than the value of one full share of Parent Stock.

16. None of the employee compensation received by any shareholder-employees of Company is or will be separate consideration for, or allocable to, any of their shares of Company Stock to be surrendered in the Merger. None of the shares of Parent Stock received by any shareholder-employee of Company in the Merger is or will be separate consideration for, or allocable to, any employment, consulting or similar arrangement. Any compensation paid or to be paid to any shareholder of Company who will be an employee of or perform advisory services for Parent, Merger Subsidiary, Company, or any affiliate thereof after the Merger, will be determined by bargaining at arm's length.

17. Since the date of the Agreement, except for the issuance of Company Stock pursuant to the rights described in paragraph 10 hereof, Company has not issued any additional shares of Company Stock.

18. No holders of Company Stock have dissenters' rights with respect to the Merger under applicable laws.

19. Except as disclosed in the Company's Schedule of Exceptions, Company has not redeemed any of its stock, made any distributions with respect to its stock, or disposed of any of its assets in contemplation or as part of the Merger, excluding for purposes of this representation regular, normal dividends and Company Stock acquired in the ordinary course of business in connection with employee incentive and benefit programs, or other programs or arrangements in existence on the date hereof.

20. The Merger is being effected for bona fide business reasons and will be carried out strictly in accordance with the Agreement, and none of the material terms and conditions therein have been or will be waived or modified.

21. Company will not take any position on any Federal, state or local income or franchise tax return, or take any other tax reporting position that is inconsistent with the treatment of the Merger as a reorganization within the meaning of Section 368(a) of the Code, unless otherwise required by

a "determination" (as defined in Section 1313(a)(1) of the Code) or by applicable state or local income or franchise tax law.

We understand that Andrews & Kurth, L.L.P. and Davis Polk & Wardwell will rely on this Certificate in rendering their opinions as to certain United States Federal income tax consequences of the Merger and we will promptly and timely inform them if, after signing this Certificate, we have reason to believe that any of the facts described herein or in the Proxy Statement or any of the representations made in this Certificate are untrue, incorrect or incomplete in any respect.

Very truly yours,

MONTEREY RESOURCES, INC.

By:_____

Title:_____

EXHIBIT D TO
THE MERGER AGREEMENT

MONTEREY RESOURCES, INC.

OFFICER'S CERTIFICATE

The undersigned officer of Monterey Resources, a Delaware corporation (the "Company"), in connection with the opinion to be delivered by Andrews & Kurth L.L.P. to Company in connection with the Agreement and Plan of Merger between Company and Texaco Inc., a Delaware corporation ("Parent"), dated as of August 17, 1997 (the "Merger Agreement"), and recognizing that Andrews & Kurth L.L.P. will rely on this Certificate in delivering such opinion, hereby certifies that the facts described in this Officer's Certificate relating to the proposed merger of Merger Subsidiary with and into Company pursuant to the Merger Agreement (the "Merger") and any transactions related thereto are true, correct, and complete in all respects and will be true, correct, and complete in all respects at the Effective Time of the Merger, and further certifies as follows (unless otherwise specified, capitalized terms used herein shall have the meaning assigned to them in the Merger Agreement):

1. I certify to you that I am the General Counsel and Secretary of Company. I am familiar with the transactions contemplated by, and the terms and provisions of, the Merger Agreement, have personal knowledge of the matters covered by the following representations, and am authorized to make the following representations on behalf of Company.

2. Except as described in Appendix A hereto, as of the time of the July 25, 1997 distribution of Company stock by Santa Fe Energy Resources, Inc., a Delaware corporation ("Santa Fe"), there had been no discussions, negotiations, agreements or arrangements regarding the acquisition of the stock or assets of Company by Parent (or a subsidiary or affiliates of Parent or anyone else) or the acquisition of the stock or assets of Parent by Company between (i) the management or the Board of Directors of Santa Fe or Santa Fe's representatives (or the management or the Board of Directors of Company or Company's representatives), and the management of the Board of Directors of Parent or any affiliate of Parent or Parent's representatives (or any other potential acquiror) or (ii) shareholders of Company and management or the Board of Directors of Parent or any affiliate of Parent or Parent's representatives (or any other potential acquiror).

3. As of the time of the July 25, 1997 distribution ofCompany stock by Santa Fe, neither the management nor the Board of Directors of Company (or Santa Fe) had a plan or intent to effect the acquisition of the stock of Company by Parent (or anyone else) or a plan or intent to engage in any other transaction that would have caused Company stockholders (as determined immediately after the July 25, 1997 distribution of Company stock by Santa Fe) to fail to own Company stock constituting "control" within the meaning of Section 368(c) of the Code. A belief that the stock of Company might be acquired or that Company might be a party to a merger at some point after the July 25 distribution of the stock of Company by Santa Fe would not, by itself, constitute a "plan or intent" to effect such an acquisition or merger.

4. As of the time of the July 25, 1997 distribution of Company stock by Santa Fe, there was no plan or intention by any stockholder of Company who owned five percent or more of the stock of Company, and the management of Company, to its best knowledge, was not aware of any plan or intention on the part of any remaining stockholder of Company to sell, exchange, transfer by gift, or otherwise dispose of any stock in, or securities of, either Santa Fe or Company after the distribution. Plan or intent for this purpose has the same meaning as set forth in paragraph 3 above.

Dated: _____, 1997

_____
Name:
Title:

EXHIBIT E TO
THE MERGER AGREEMENT

TEXACO INC.

AUTHORIZED REPRESENTATIVE'S CERTIFICATE

The undersigned authorized representative of Texaco Inc., a Delaware corporation ("Parent"), in connection with the opinion to be delivered by Andrews & Kurth L.L.P. to Monterey Resources, Inc., a Delaware corporation (the "Company"), in connection with the Agreement and Plan of Merger between Company and Parent dated as of August 17, 1997 (the "Merger Agreement"), and recognizing that Andrews & Kurth L.L.P. will rely on this Certificate in delivering such opinion, hereby certifies that the facts described in this Authorized Representative's Certificate relating to the proposed merger of Merger Subsidiary with and into Company pursuant to the Merger Agreement (the "Merger") and any transactions related thereto are true, correct, and complete in all respects and will be true, correct, and complete in all respects at the Effective Time of the Merger, and further certifies as follows (unless otherwise specified, capitalized terms used herein shall have the meaning assigned to them in the Merger Agreement):

1. I certify to you that I am the Assistant General Counsel of Parent. I am familiar with the transactions contemplated by, and the terms and provisions of, the Merger Agreement, have personal knowledge of the matters covered by the following representations, and am authorized to make the following representations on behalf of Parent.

2. To the best of my knowledge and belief, except as described in Appendix A hereto, as of the time of the July 25, 1997 distribution of Company stock by Santa Fe Energy Resources, Inc., a Delaware corporation ("Santa Fe"), there had been no discussions, negotiations, agreements or arrangements regarding the acquisition of the stock or assets of Company by Parent (or a subsidiary or affiliate of Parent or anyone else) or the acquisition of the stock or assets of Parent by Company between (i) the management or the Board of Directors of Santa Fe or Santa Fe's representatives (or the management or the Board of Directors of Company or Company's representatives), and the management or the Board of Directors of Parent or any affiliate of Parent or its representatives (or any other person) or (ii) shareholders of Company and management or the Board of Directors of Parent or any affiliate of Parent or Parent's representatives (or any other person).

3. To the best of my knowledge and belief, as of the time of the July 25, 1997 distribution of Company stock by Santa Fe, neither the management nor the Board of Directors of Santa Fe (or Company) had a plan or intent to effect the acquisition of the stock of Company by Parent (or anyone else) or a plan or intent to engage in any other transaction that would have caused Company stockholders (as determined immediately after the July 25, 1997 distribution of Company stock by Santa Fe) to fail to own Company stock constituting "control" within the meaning of Section 368(c) of the Code. A belief that the stock of the Company might be acquired or that Company might be a party to a merger at some point after the July 25 distribution of the stock of Company by Santa Fe would not, by itself, constitute a "plan or intent" to effect such an acquisition or merger.

Dated: _____, 1997

_____
Name:
Title:

EXHIBIT F TO
THE MERGER AGREEMENT

CERTIFICATE OF R. GRAHAM WHALING

The undersigned, in connection with the opinion to be delivered by Andrews & Kurth L.L.P. to Monterey Resources, Inc., a Delaware corporation (the "Company"), in connection with the Agreement and Plan of Merger between Company and Texaco Inc., a Delaware corporation ("Parent"), dated as of August 17, 1997 (the "Merger Agreement"), and recognizing that Andrews & Kurth L.L.P. will rely on this Certificate in delivering such opinion, hereby certifies that the facts described in this Officer's Certificate relating to the proposed merger of Merger Subsidiary with and into the Company pursuant to the Merger Agreement (the "Merger") and any transactions related thereto are true, correct, and complete in all respects and will be true, correct, and complete in all respects at the Effective Time of the Merger, and further certifies as follows (unless otherwise specified, capitalized terms used herein shall have the meaning assigned to them in the Merger Agreement):

1. I certify to you that I am familiar with the transactions contemplated by, and the terms and provisions of, the Merger Agreement, have personal knowledge of the matters covered by the following representations.

2. To the best of my knowledge and belief, except as described in Appendix A hereto, as of the time of the July 25, 1997 distribution of Company stock by Santa Fe, there had been no discussions, negotiations,

agreements or arrangements regarding the acquisition of the stock or assets of Company by Parent (or a subsidiary or affiliate of Parent or anyone else) or the acquisition of the stock or assets of Parent by Company between (i) the management or the Board of Directors of Sante Fe or Santa Fe's representatives (or the management or the Board of Directors of Company or Company's representatives), and the management or the Board of Directors of Parent or Parent's representatives (or any other potential acquiror) or (ii) between sharesholders of the Company and management or the Board of Directors of Parent or Parent's representatives (or any other potential acquiror).

3. To the best of my knowledge and belief, as of the time of the July 25, 1997 distribution of Company stock by Santa Fe, neither the management nor the Board of Directors of Santa Fe (or the Company) had a plan or intent to effect the acquisition of the stock of Company by Parent (or anyone else) or a plan or intent to engage in any other transaction that would have caused the Company stockholders (as determined immediately after the July 25, 1997 distribution of Company stock by Santa Fe) to fail to own Company stock constituting "control" within the meaning of Section 368(c) of the Code. A belief that the stock of the Company might be acquired or that the Company might be a party to a merger at some point after the July 25 distribution of the stock of the Company by Santa Fe would not, by itself, constitute a "plan or intent" to effect such an acquisition or merger.

4. To the best of my knowledge and belief, except as described in Appendix A hereto, as of the time of the July 25, 1997 distribution of Company stock by Santa Fe, there was no plan or intention by any stockholder of Santa Fe who owned five percent or more of the stock of Santa Fe, and the management of Santa Fe, to its best knowledge, was not aware of any plan or intention on the part of any remaining stockholder of Santa Fe to sell, exchange, transfer by gift, or otherwise dispose of any stock in, or securities of, either Santa Fe or Company after the distribution. Plan or intent for this purpose has the same meaning as set forth in paragraph 3 above.

Dated: _____, 1997

_____
Name:
Title:

ANNEX B

[Letterhead of Goldman, Sachs & Co.]

PERSONAL AND CONFIDENTIAL

August 17, 1997

Board of Directors
Monterey Resources, Inc.
5201 Truxtun Avenue, Suite 100
Bakersfield, CA 93309

Gentlemen:

You have requested our opinion as to the fairness to the holders of the outstanding shares of Common Stock, par value $0.01 per share (the "Shares"), of Monterey Resources, Inc. (the "Company") of the Stock Consideration (as defined below) to be received for each Share pursuant to the Agreement and Plan of Merger dated as of August 17, 1997 among Texaco Inc. ("Texaco") and the Company (the "Agreement"). Pursuant to the Agreement, Texaco will cause one of its wholly-owned subsidiaries to merge with and into the Company (the "Merger") and each Share (other than Shares owned by Texaco and its affiliates and Shares held in treasury) will be converted into the right to receive that number of shares of Texaco Common Stock, par value $6.25 per share ("Texaco Common Stock"), derived by dividing $21.00 by the Average Closing Price (as defined in the Agreement); provided that if the Average Closing Price is greater than $121.00, the number of shares of Texaco Common Stock to be issued per Share will be 0.1736, and if the Average Closing Price is less than $99.00, the number of shares of Texaco Common Stock to be issued per Share will be 0.2121 (the "Stock Consideration"). You have advised us that Texaco will take all necessary actions to form a wholly-owned subsidiary in order to effect the Merger.

Goldman, Sachs & Co., as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. We are familiar with the Company having provided certain investment banking services to the Company from time to time, including having acted as lead underwriter of the initial public offering of Shares in November 1996, and having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the Agreement. Prior to the initial public offering of the Shares and until the tax-free distribution of Shares owned by Santa Fe Energy Resources, Inc. to its common stockholders on July 25, 1997, the Company was a wholly-owned subsidiary of Santa Fe Energy Resources, Inc. ("Santa Fe"). We have provided certain investment banking services to Santa Fe from time to time and may provide investment banking services to Santa Fe in the future. We also have provided certain investment banking services

to Texaco from time to time and may provide investment banking services to Texaco in the future. In the course of trading activities of Goldman, Sachs & Co. prior to our retention with this matter, the Firm accumulated a long position of 814,948 Shares.

In connection with this opinion, we have reviewed, among other things, the Agreement; Annual Reports to Stockholders and Annual Reports on Form 10-K of the Company for the year ended December 31, 1996, and of Texaco for the five years ended December 31, 1996; certain interim reports to stockholders of the Company and Texaco and Quarterly Reports on Form 10-Q of the Company and Texaco; Amendment No. 3 to the Registration Statement on Form S-1 and the Prospectus contained therein, each dated November 13, 1996, relating to the initial public offering of Shares; certain other communications from the Company and Texaco to their respective stockholders; and certain internal financial analyses and forecasts for the Company prepared by its management. We also have held discussions with members of the senior management of the Company and Texaco regarding the past and current business operations, financial condition and future prospects of their respective companies. We have reviewed certain information provided by the Company relating to the Company's oil and gas reserves, including reserve reports for the year ended December 31, 1996 prepared by independent petroleum engineers for the Company, and have discussed the reserve information with the senior management of the Company. In addition, we have reviewed the reported price and trading activity for the Shares and the shares of Texaco Common Stock, compared certain financial and stock market information for the Company and Texaco with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the oil and gas industry specifically and in other industries generally and performed such other studies and analyses as we considered appropriate.

We have relied upon the accuracy and completeness of all of the financial and other information reviewed by us and have assumed such accuracy and completeness for purposes of rendering this opinion. In addition, we have not made an independent evaluation or appraisal of the assets and liabilities of the Company or Texaco or any of their subsidiaries and, except for the reserve information referred to in the third paragraph of this opinion, we have not been furnished with any such evaluation or appraisal. With respect to such reserve information, we are not experts in the evaluation of oil and gas properties and, with your consent, have relied without independent verification solely upon the reserve reports and internal estimates prepared by the independent petroleum engineers and senior management of the Company. Our opinion is based upon the economic and market conditions existing on the date hereof. We were not requested to solicit and did not solicit interest from other parties in a potential business combination with the Company. Our advisory services and the opinion expressed herein are provided for the information and assistance of the Board of Directors of the Company in connection with its consideration of the transaction contemplated by the Agreement and such opinion does not constitute a recommendation as to how any holder of Shares should vote with respect to such transaction.

Based upon and subject to the foregoing, and based upon such other matters as we consider relevant, it is our opinion that as of the date hereof the Stock Consideration pursuant to the Agreement is fair to the holders of Shares.

Very truly yours,

/s/ Goldman, Sachs & Co.

(GOLDMAN, SACHS & CO.)

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers.

Exculpation. Section 102(b)(7) of the DGCL permits a corporation to include in its certificate of incorporation a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision may not eliminate or limit the liability of a director for any breach of the director's duty of loyalty to the corporation or its stockholders, for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, for the payment of unlawful dividends, or for any transaction from which the director derived an improper personal benefit.

The Texaco Certificate of Incorporation limits the personal liability of a director to Texaco and its stockholders for monetary damages for a breach of fiduciary duty as a director except to the extent such limitation of liability is not permitted by the DGCL.

Indemnification. Section 145 of the DGCL permits a corporation to indemnify any of its directors or officers who was or is a party, or is threatened to be made a party to any third party proceeding by reason of the fact that such person is or was a director or officer of the corporation, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal

action or proceeding, had no reason to believe that such person's conduct was unlawful. In a derivative action, i.e., one by or in the right of a corporation, the corporation is permitted to indemnify directors and officers against expenses (including attorneys' fees) actually and reasonably incurred by them in connection with the defense or settlement of an action or suit if they acted in good faith and in a manner that they reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made if such person shall have been adjudged liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine upon application that the defendant directors or officers are fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

The Texaco Bylaws provide for indemnification of directors and officers of Texaco against liability they may incur in their capacities as such to the fullest extent authorized by applicable law.

Insurance. Texaco has in effect directors' and officers' liability insurance and fiduciary insurance. The fiduciary liability insurance covers actions of directors and officers as well as other employees with fiduciary responsibilities under ERISA.

Monterey Directors and Officers. The Merger Agreement provides that (i) for six years after the Effective Time Texaco will cause Monterey to indemnify and hold harmless the present and former directors or officers of Monterey in respect of acts or omissions occurring prior to the Effective Time to the fullest extent permitted by the DGCL for damages and liabilities and (ii) for a period of six years after the Effective Time Texaco will cause Monterey to use its best efforts to provide directors' and officers' liability insurance in respect of acts or omissions occurring prior to the Effective Time on terms with respect to coverage and amount no less favorable than as in effect on August 17, 1997.

Item 21. Exhibits and Financial Statement Schedules.

Exhibit Number	Description	Page
2	Agreement and Plan of Merger dated as of August 17, 1997 between the Registrant and Monterey Resources, Inc. and exhibits attached thereto (included as Annex A to the Proxy Statement/Prospectus contained in this Registration Statement).	
3(a)	Copy of restated Certificate of Incorporation of the Registrant, as amended to and including September 10, 1997, including Certificate of Designations, Preferences and Rights of Series B ESOP Convertible Preferred Stock, Series D Junior Participating Preferred Stock, Series F ESOP Convertible Preferred Stock and Series G, H, I and J Market Auction Preferred Shares.	
3(b)	Copy of By-Laws of the Registrant, as amended to and including July 25, 1997, filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997, dated August 13, 1997, incorporated herein by reference, S.E.C. File No. 1-27.	
4	Instruments defining the rights of holders of long-term debt of the Registrant and its subsidiary companies are not being filed since the total amount of securities authorized under each of such instruments does not exceed 10 percent of the total assets of the Registrant and its subsidiary companies on a consolidated basis. The Registrant agrees to furnish a copy of any instrument to the Securities and Exchange Commission upon request.	
5	Opinion of Davis Polk & Wardwell regarding the validity of the securities being registered.	
8(a)	Opinion of Davis Polk & Wardwell regarding certain federal income tax consequences relating to the Merger.	
8(b)	Opinion of Andrews & Kurth L.L.P. regarding certain federal income tax consequences relating to the Merger.	
23(a)	Consent of Arthur Andersen LLP.	
23(b)	Consent of Price Waterhouse LLP.	
23(c)	Consent of Coopers & Lybrand, L.L.P.	
23(d)	Consent of Davis Polk & Wardwell (included in the opinions filed as Exhibit 5 and Exhibit 8(a) to this Registration Statement).	
23(e)	Consent of Andrews & Kurth L.L.P. (included in the opinion filed as Exhibit 8(b) to this Registration Statement).	
23(f)	Consent of Goldman, Sachs & Co.	
23(g)	Consent of Ryder Scott Company.	
24	Powers of Attorney	
99	Form of Monterey Resources, Inc. Proxy Card.	

Item 22. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(2) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(3) That every prospectus (i) that is filed pursuant to paragraph (2) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act of 1933 and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(b) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the Proxy Statement/Prospectus pursuant to Item 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(c) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(d) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Harrison, State of New York, on September 29, 1997.

TEXACO INC.
(Registrant)

By: /s/ Carl B. Davidson

Name: Carl B. Davidson
Title: Vice President and Secretary

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
* (Peter I. Bijur)	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	September 29, 1997
*	Senior Vice President and	September 29, 1997

(Patrick J. Lynch)	Chief Financial Officer (Principal Financial Officer)	
* (Robert C. Oelkers)	Vice President and Comptroller (Principal Accounting Officer)	September 29, 1997
* (John Brademas)	Director	September 29, 1997
* (Mary K. Bush)	Director	September 29, 1997
* (Willard C. Butcher)	Director	September 29, 1997
* (Edmund M. Carpenter)	Director	September 29, 1997
* (Michael C. Hawley)	Director	September 29, 1997
* (Franklyn G. Jenifer)	Director	September 29, 1997
* (Thomas S. Murphy)	Director	September 29, 1997
* (Charles H. Price, II)	Director	September 29, 1997
* (Robin B. Smith)	Director	September 29, 1997
* (William C. Steere, Jr.)	Director	September 29, 1997
* (Thomas A. Vanderslice)	Director	September 29, 1997
* (William Wrigley)	Director	September 29, 1997
* /s/ R.E. Koch Attorney-in-Fact		September 29, 1997

CERTIFICATE OF INCORPORATION
OF
TEXACO INC.
(as amended to and including September 10, 1997)

A Restated Certificate of Incorporation was duly adopted by the Board of Directors of Texaco Inc. on April 27, 1990, pursuant to Section 245 of the General Corporation Law of the State of Delaware and was amended on December 22, 1992, November 9, 1994 and September 10, 1997. This document only restates and integrates the provisions of the Company's Restated Certificate of Incorporation as heretofore amended or supplemented.

The Company was incorporated under the laws of Delaware on August 26, 1926, as The Texas Corporation.

I.

The name of this Company is TEXACO INC.

II.

Its principal office in the State of Delaware is located at 32 Loockerman Square, Suite L-100, in the City of Dover, County of Kent, and the name of its resident agent is The Prentice-Hall Corporation System, Inc., whose address is 32 Loockerman Square, Suite L-100, Dover, Delaware.

III.

The objects or purposes for which the Company is formed and the nature of the business to be carried on, any one or all of which it may pursue in the United States of America and the states, districts, territories and possessions thereof and in foreign countries, are as follows:

A. to engage in and carry on the petroleum business and the various branches thereof, including the extraction, production, storage, transportation, purchase and sale of oil and gas, natural gas liquids, shale and other hydrocarbon substances and their products and by-products, and refining, treating, applying, compounding, processing and otherwise preparing them for market;

B. to engage in and carry on any other business, without limit as to kind and whether or not related to, similar to or different from, the petroleum business, including but not limited to, the businesses of mining, manufacturing, processing, storage, construction, service, transportation and merchandising;

C. to acquire, own, hold, enjoy, lease, deal in, operate, dispose of and convey real and personal property of every kind and description, rights and interests therein, and the business, property, assets and good will of any person, partnership, association, firm, corporation or other entity;

D. to acquire, own, hold, enjoy, deal in and sell, transfer or otherwise dispose of stock, bonds, notes and other securities, as well as accounts, contracts and evidences of indebtedness of any person, partnership, association, firm, corporation or other entity, in whatsoever business or activity engaged and whether private or public in character, and to exercise all rights in respect thereto;

E. to make secured and unsecured loans, with or without interest, to assume or guarantee the stock, bonds, and obligations of, or otherwise to assist, any person, partnership, association, firm, corporation or other entity, in whatsoever business or activity engaged and whether public or private in character, when so doing, in the opinion of the Board of Directors, would tend to promote the business of this Company;

F. to acquire, own, hold, enjoy, grant, deal in, transfer, sell or otherwise dispose of intangible property of every kind and description, including, without limitation, patents, patent rights, trademarks, trade names, copyrights, licenses, formulae and choses in action of any kind;

G. to do all and everything useful in or incidental to the accomplishment of the objects and purposes herein stated, as principal, agent, contractor, trustee, or otherwise, either alone or in association with others, to the same extent and as fully as could natural persons.

No enumeration of specific objects, purposes or powers, or particular description of business in this article shall be held to limit or restrict in any manner those enumerations or descriptions which are general in their character, and the objects, powers and descriptions of one section shall in no wise be limited or restricted by reference to or inference from the terms of any other section.

IV.

The total number of shares of all classes of stock which the Company shall have authority to issue is 730,000,000 shares, consisting of 30,000,000 shares of Preferred Stock of the par value of $1.00 each and 700,000,000 shares of Common Stock of the par value of $3.125 each. At the effective time of this amendment to this Article decreasing the par value of the Common Stock to $3.125, and without any further action on the part of the company or its stockholders, each share of Common Stock with a par value of $6.25 then issued and outstanding shall be changed and reclassified into a fully paid and nonassessable share of Common Stock with a par value of $3.125.

The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions of the Preferred Stock and the Common Stock are as follows:

A. The Preferred Stock may be issued from time to time in one or more series. Subject to the limitations set forth herein and any limitations prescribed by law, the Board of Directors is expressly authorized, prior to issuance of any series of Preferred Stock, to fix by resolution or resolutions providing for the issue of any series the number of shares included in such series and the designation, relative powers, preferences and rights, and the qualifications, limitations or restrictions of such series. Pursuant to the foregoing general authority vested in the Board of Directors, but not in limitation of the powers conferred on the Board of Directors thereby and by the General Corporation Law of the State of Delaware, the Board of Directors is expressly authorized to determine with respect to each series of Preferred Stock:

1. the designation or designations of such series and the number of shares (which number from time to time may be decreased by the Board of Directors, but not below the number of such shares of such series then outstanding, or may be increased by the Board of Directors unless otherwise provided in creating such series) constituting such series;

2. the rate or amount and times at which, and the preferences and conditions under which, dividends shall be payable on shares of such series, the status of such dividends as cumulative or non-cumulative, the date or dates from which dividends, if cumulative, shall accumulate, and the status of such as participating or non-participating after the payment of dividends as to which such shares are entitled to any preference;

3. the rights and preferences, if any, of the holders of shares of such series upon the liquidation, dissolution or winding up of the affairs of, or upon any distribution of the assets of, the Company, which amount may vary depending upon whether such liquidation, dissolution or winding up is voluntary or involuntary and, if voluntary, may vary at different dates, and the status of the shares of such series as participating or non-participating after the satisfaction of any such rights and preferences;

4. the full or limited voting rights, if any, to be provided for shares of such series, in addition to the voting rights provided by law;

5. the times, terms and conditions, if any, upon which shares of such series shall be subject to redemption, including the amount the holders of shares of such series shall be entitled to receive upon redemption (which amount may vary under different conditions or at different redemption dates) and the amount, terms, conditions and manner of operation of any purchase, retirement or sinking fund to be provided for the shares of such series;

6. the rights, if any, of holders of shares of such series to convert such shares into, or to exchange such shares for, shares of any other class or classes or of any other series of the same class, the prices or rates of conversion or exchange, and adjustments thereto, and any other terms and conditions applicable to such conversion or exchange;

7. the limitations, if any, applicable while such series is outstanding on the payment of dividends or making of distributions on, or the acquisition or redemption of, Common Stock or any other class of shares ranking junior, either as to dividends or upon liquidation, to the shares of such series;

8. the conditions or restrictions, if any, upon the issue of any additional shares (including additional shares of such series or any other series or of any other class) ranking on a parity with or prior to the shares of such series either as to dividends or upon liquidation; and

9. any other relative powers, preferences and participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of shares of such series;

in each case, so far as not inconsistent with the provisions of this Certificate of Incorporation or the General Corporation Law of the State of Delaware as then in effect. All shares of Preferred Stock shall be identical and of equal rank except in respect to the particulars that may be fixed by the Board of Directors as provided above, and all shares of each series of Preferred Stock shall be identical and of equal rank except as to the times from which cumulative dividends, if any, thereon shall be cumulative.

B. Pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation, the Board of Directors has created the following series of Preferred Stock, with the following voting powers, preferences and relative, participating, optional or other special rights, and the following qualifications, limitations or restrictions.

Series B ESOP Convertible Preferred Stock

Section 1. Designation and Amount; Special Purpose Restricted Transfer Issue.

(A) The shares of such series shall be designated as "Series B

ESOP Convertible Preferred Stock" ("Series B Preferred Stock") and the number of shares constituting such series shall be 833,333 1/3.

(B) Shares of Series B Preferred Stock shall be issued only to State Street Bank and Trust Company, as trustee (the "Trustee") of the employee stock ownership plan feature of the Employees Thrift Plan of the Company (the "Plan"). All references to the holder of shares of Series B Preferred Stock shall mean the Trustee or any successor trustee under the Plan. In the event of any transfer of record ownership of shares of Series B Preferred Stock to any person other than any successor trustee under the Plan, the shares of Series B Preferred Stock so transferred, upon such transfer and without any further action by the Company or the holder thereof, shall be automatically converted into shares of Common Stock on the terms otherwise provided for the conversion of shares of Series B Preferred Stock into shares of Common Stock pursuant to Section 5 hereof and no such transferee shall have any of the voting powers, preferences and relative, participating, optional or special rights ascribed to shares of Series B Preferred Stock hereunder but, rather, only the powers and rights pertaining to the Common Stock into which such shares of Series B Preferred Stock shall be so converted. In the event of such a conversion, the transferee of the shares of Series B Preferred Stock shall be treated for all purposes as the record holder of the shares of Common Stock into which such shares of Series B Preferred Stock have been automatically converted as of the date of such transfer. Certificates representing shares of Series B Preferred Stock shall bear a legend to reflect the foregoing provisions. Notwithstanding the foregoing provisions of this paragraph (B) of Section 1, shares of Series B Preferred Stock (i) may be converted into shares of Common Stock as provided by Section 5 hereof and the shares of Common Stock issued upon such conversion may be transferred by the holder thereof as permitted by law and (ii) shall be redeemable by the Company upon the terms and conditions provided by Sections 6, 7 and 8 hereof.

Section 2. Dividends and Distribution.

(A) Subject to the provisions for adjustment hereinafter set forth, the holders of shares of Series B Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cash dividends ("Preferred Dividends") in an amount per share equal to $57.00 per share per annum, and no more, payable semiannually in arrears, one-half on the 20th day of December and one-half on the 20th day of June of each year (each a "Dividend Payment Date") commencing on June 20, 1989, to holders of record at the start of business on such Dividend Payment Date. In the event that any Dividend Payment Date shall fall on any day other than a "Business Day" (as hereinafter defined), the dividend payment due on such Dividend Payment Date shall be paid on the Business Day immediately preceding such Dividend Payment Date. Preferred Dividends shall begin to accrue on outstanding shares of Series B Preferred Stock from the date of issuance of such shares of Series B Preferred Stock. Preferred Dividends shall accrue on a daily basis whether or not the Company shall have earnings or surplus at the time, but Preferred Dividends accrued after issuance on the shares of Series B Preferred Stock for any period less than a full semiannual period between Dividend Payment Dates shall be computed on the basis of a 360-day year of 30-day months. Accrued but unpaid Preferred Dividends shall cumulate as of the Dividend Payment Date on which they first become payable, but no interest shall accrue on accumulated but unpaid Preferred Dividends.

(B) So long as any shares of Series B Preferred Stock shall be outstanding, no dividend shall be declared or paid or set apart for payment on any other series of stock ranking on a parity with the Series B Preferred Stock as to dividends, unless there shall also be or have been declared and paid or set apart for payment on the Series B Preferred Stock, dividends for all dividend payment periods of the Series B Preferred Stock ending on or before the Dividend Payment Date of such parity stock, ratably in proportion to the respective amounts of dividends accumulated and unpaid through such dividend period on the Series B Preferred Stock and accumulated and unpaid on such parity stock through the dividend payment period on such parity stock next preceding such Dividend Payment Date. In the event that full cumulative dividends on the Series B Preferred Stock have not been declared and paid or set apart for payment when due, the Company shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of any other class of stock or series thereof of the Company ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock until full cumulative dividends on the Series B Preferred Stock shall have been paid or declared and set apart for payment; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock or (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock in exchange solely for shares of any other stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding up of the Company, junior to the Series B Preferred Stock.

Section 3. Voting Rights.

The holders of shares of Series B Preferred Stock shall have the following voting rights:

(A) The holders of Series B Preferred Stock shall be entitled to vote on all matters submitted to a vote of the stockholders of the Company, voting together with the holders of Common Stock as one class. The holder of each share of Series B Preferred Stock shall be entitled to a number of votes equal to the number of shares of Common Stock into which such share of Series B Preferred Stock could be converted on the record date for determining the stockholders entitled to vote, rounded to the nearest one-tenth of a vote; it

being understood that whenever the "Conversion Price" (as defined in Section 5 hereof) is adjusted as provided in Section 9 hereof, the voting rights of the Series B Preferred Stock shall also be similarly adjusted.

(B) Except as otherwise required by law or set forth herein, holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for the taking of any corporate action; provided, however, that the vote of at least 66 2/3% of the outstanding shares of Series B Preferred Stock, voting separately as a series, shall be necessary to adopt any alteration, amendment or repeal of any provision of the Restated Certificate of Incorporation of the Company, as amended, or this Resolution (including any such alteration, amendment or repeal effected by any merger or consolidation in which the Company is the surviving or resulting corporation), if such amendment, alteration or repeal would alter or change the powers, preferences or special rights of the shares of Series B Preferred Stock so as to affect them adversely.

Section 4. Liquidation, Dissolution or Winding Up.

(A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series B Preferred Stock shall be entitled to receive out of assets of the Company which remain after satisfaction in full of all valid claims of creditors of the Company and which are available for payment to stockholders, and subject to the rights of the holders of any stock of the Company ranking senior to or on a parity with the Series B Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, before any amount shall be paid or distributed among the holders of Common Stock or any other shares ranking junior to the Series B Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, liquidating distributions in the amount of $600 per share, plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for distribution, and no more. If upon any liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Series B Preferred Stock and any other stock ranking as to any such distribution on a parity with the Series B Preferred Stock are not paid in full, the holders of the Series B Preferred Stock and such other stock shall share ratably in any distribution of assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount to which they are entitled as provided by the foregoing provisions of this paragraph 4(A), the holders of shares of Series B Preferred Stock shall not be entitled to any further right or claim to any of the remaining assets of the Company.

(B) Neither the merger or consolidation of the Company with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Company, nor the sale, lease, exchange or other transfer of all or any portion of the assets of the Company, shall be deemed to be a dissolution, liquidation or winding up of the affairs of the Company for purposes of this Section 4, but the holders of Series B Preferred Stock shall nevertheless be entitled in the event of any such merger or consolidation to the rights provided by Section 8 hereof.

(C) Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable to holders of Series B Preferred Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than twenty (20) days prior to any payment date stated therein, to the holders of Series B Preferred Stock, at the address shown on the books of the Company or any transfer agent for the Series B Preferred Stock.

Section 5. Conversion into Common Stock.

(A) A holder of shares of Series B Preferred Stock shall be entitled, at any time prior to the close of business on the date fixed for redemption of such shares pursuant to Sections 6, 7 and 8 hereof, to cause any or all of such shares to be converted into shares of Common Stock, initially at a conversion rate equal to the ratio of $600 to the amount which initially shall be $60 and which shall be adjusted as hereinafter provided (and, as so adjusted, is hereinafter sometimes referred to as the "Conversion Price") (that is, a conversion rate initially equivalent to ten shares of Common Stock for each share of Series B Preferred Stock so converted, which is subject to adjustment as the Conversion Price is adjusted as hereinafter provided).

(B) Any holder of shares of Series B Preferred Stock desiring to convert such shares into shares of Common Stock shall surrender the certificate or certificates representing the shares of Series B Preferred Stock being converted, duly assigned or endorsed for transfer to the Company (or accompanied by duly executed stock powers relating thereto), at the principal executive office of the Company or the offices of the transfer agent for the Series B Preferred Stock or such office or offices in the continental United States of an agent for conversion as may from time to time be designated by notice to the holders of the Series B Preferred Stock by the Company or the transfer agent for the Series B Preferred Stock, accompanied by written notice of conversion. Such notice of conversion shall specify (i) the number of shares of Series B Preferred Stock to be converted and the name or names in which such holder wishes the certificate or certificates for Common Stock and for any shares of Series B Preferred Stock not to be so converted to be issued and (ii) the address to which such holder wishes delivery to be made of such new certificates to be issued upon such conversion.

(C) Upon surrender of a certificate representing a share or shares of Series B Preferred Stock for conversion, the Company shall issue and send by hand delivery (with receipt to be acknowledged) or by first-class mail, postage prepaid, to the holder thereof or to such holder's designee, at the address designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled upon

conversion. In the event that there shall have been surrendered a certificate or certificates representing shares of Series B Preferred Stock, only part of which are to be converted, the Company shall issue and deliver to such holder or such holder's designee a new certificate or certificates representing the number of shares of Series B Preferred Stock which shall not have been converted.

(D) The issuance by the Company of shares of Common Stock upon a conversion of shares of Series B Preferred Stock into shares of Common Stock made at the option of the holder thereof shall be effective as of the earlier of (i) the delivery to such holder or such holder's designee of the certificates representing the shares of Common Stock issued upon conversion thereof or (ii) the commencement of business on the second business day after the surrender of the certificate or certificates for the shares of Series B Preferred Stock to be converted, duly assigned or endorsed for transfer to the Company (or accompanied by duly executed stock powers relating thereto) as provided by this Resolution. On and after the effective day of conversion, the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock, but no allowance or adjustment shall be made in respect of dividends payable to holders of Common Stock in respect of any period prior to such effective date. The Company shall not be obligated to pay any dividends which shall have been declared and shall be payable to holders of shares of Series B Preferred Stock on a Dividend Payment Date if such Dividend Payment Date for such dividend is subsequent to the effective date of conversion of such shares.

(E) The Company shall not be obligated to deliver to holders of Series B Preferred Stock any fractional share of shares of Common Stock issuable upon any conversion of such shares of Series B Preferred Stock, but in lieu thereof may make a cash payment in respect thereof in any manner permitted by law.

(F) The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for issuance upon the conversion of shares of Series B Preferred Stock as herein provided, free from any preemptive rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Series B Preferred Stock then outstanding. Nothing contained herein shall preclude the Company from issuing shares of Common Stock held in its treasury upon the conversion of shares of Series B Preferred Stock into Common Stock pursuant to the terms hereof. The Company shall prepare and shall use its best efforts to obtain and keep in force such governmental or regulatory permits or other authorizations as may be required by law, and shall comply with all requirements as to registration or qualification of the Common Stock, in order to enable the Company lawfully to issue and deliver to each holder of record of Series B Preferred Stock such number of shares of its Common Stock as shall from time to time be sufficient to effect the conversion of all shares of Series B Preferred Stock then outstanding and convertible into shares of Common Stock.

Section 6. Redemption at the Option of the Company.

(A) The Series B Preferred Stock shall be redeemable, in whole or in part, at the option of the Company at any time after December 20, 1991, or at any time after the date of issuance, if permitted by paragraph (D) of this Section 6, at the following redemption prices per share:

During the Twelve-Month Period Beginning December 20	Price Per Share
1988	$657.00
1989	$651.30
1990	$645.60
1991	$639.90
1992	$634.20
1993	$628.50
1994	$622.80
1995	$617.10
1996	$611.40
1997	$605.70

and thereafter at $600 per share, plus, in each case, an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption. Payment of the redemption price shall be made by the Company in cash or shares of Common Stock, or a combination thereof, as permitted by paragraph (F) of this Section 6. From and after the date fixed for redemption, dividends on shares of Series B Preferred Stock called for redemption will cease to accrue, such shares will no longer be deemed to be outstanding and all rights in respect of such shares of the Company shall cease, except the right to receive the redemption price. If less than all of the outstanding shares of Series B Preferred Stock are to be redeemed, the Company shall either redeem a portion of the shares of each holder determined pro rata based on the number of shares held by each holder or shall select the shares to be redeemed by lot, as may be determined by the Board of Directors of the Company.

(B) Unless otherwise required by law, notice of redemption will be sent to the holders of Series B Preferred Stock at the address shown on the books of the Company or any transfer agent for the Series B Preferred Stock by first-class mail, postage prepaid, mailed not less than twenty (20) days nor more than sixty (60) days prior to the redemption date. Each such notice shall state: (i) the redemption date; (ii) the total number of shares of the Series B Preferred Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; (v) that dividends on the shares to be redeemed will cease

to accrue on such redemption date; and (vi) the conversion rights of the shares to be redeemed, the period within which conversion rights may be exercised, and the Conversion Price and number of shares of Common Stock issuable upon conversion of a share of Series B Preferred Stock at the time. Upon surrender of the certificate for any shares so called for redemption and not previously converted (properly endorsed or assigned for transfer, if the Board of Directors of the Company shall so require and the notice shall so state), such shares shall be redeemed by the Company at the date fixed for redemption and at the redemption price set forth in this Section 6.

(C) In the event of a change in the federal tax law of the United States of America which has the effect of precluding the Company from claiming any of the tax deductions for dividends paid on the Series B Preferred Stock when such dividends are used as provided under Section 404(k)(2) of the Internal Revenue Code of 1986, as amended and in effect on the date shares of Series B Preferred Stock are initially issued, the Company may, in its sole discretion and notwithstanding anything to the contrary in paragraph (A) of this Section 6, elect to redeem any or all of such shares for the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof.

(D) Notwithstanding anything to the contrary in paragraph (A) of this Section 6, the Company may elect to redeem any or all of the shares of Series B Preferred Stock at any time on or prior to December 20, 1991, on the terms and conditions set forth in paragraphs (A) and (B) of this Section 6, if the last reported sales price, regular way, of a share of Common Stock, as reported on the New York Stock Exchange Composite Tape or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such stock is listed or admitted to trading or, if the Common Stock is not listed or admitted to trading on any national securities exchange, on the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or, if Common Stock is not quoted on such National Market System, the average of the closing bid and asked prices in the over-the-counter market as reported by NASDAQ, for at least twenty (20) trading days within a period of thirty (30) consecutive trading days ending within five (5) days of the notice of redemption, equals or exceeds one hundred fifty percent (150%) of the Conversion Price (giving effect in making such calculation to any adjustments required by Section 9 hereof).

(E) In the event that the Plan is terminated in accordance with its terms, and notwithstanding anything to the contrary in paragraph (A) of this Section 6, the Company shall, as soon thereafter as practicable, call for redemption all then outstanding shares of Series B Preferred Stock for the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof.

(F) The Company, at its option, may make payment of the redemption price required upon redemption of shares of Series B Preferred Stock in cash or in shares of Common Stock, or in a combination of such shares and cash, any such shares of Common Stock to be valued for such purposes at their Fair Market Value (as defined in paragraph (G) of Section 9 hereof).

Section 7. Other Redemption Rights.

Shares of Series B Preferred Stock shall be redeemed by the Company for cash or, if the Company so elects, in shares of Common Stock, or a combination of such shares and cash, any such shares of Common Stock to be valued for such purpose as provided by paragraph (F) of Section 6, at a redemption price of $600 per share plus accrued and unpaid dividends thereon to the date fixed for redemption, at the option of the holder, at any time and from time to time upon notice to the Company given not less than five (5) business days prior to the date fixed by the holder in such notice for such redemption, upon certification by such holder to the Company of the following events: (i) when and to the extent necessary for such holder to provide for distributions required to be made to participants under, or to satisfy an investment election provided to participants in accordance with, the Plan, or any successor plan; (ii) when and to the extent necessary for such holder to make any payments of principal, interest or premium due and payable (whether as scheduled or upon acceleration) under the Loan Agreement among the Trustee, certain banking parties thereto (collectively, the "Banks") and Chase Manhattan Bank (National Association), as agent for the Banks or any indebtedness incurred by the holder for the benefit of the Plan; or (iii) in the event that the Plan is not initially determined by the Internal Revenue Service to be qualified within the meaning of Sections 401(a) and 4975(e)(7) of the Internal Revenue Code of 1986, as amended.

Section 8. Consolidation, Merger, etc.

(A) In the event that the Company shall consummate any consolidation or merger or similar business combination, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged solely for or changed, reclassified or converted solely into stock of any successor or resulting corporation (including the Company) that constitutes "qualifying employer securities" with respect to a holder of Series B Preferred Stock within the meaning of Section 409(l) of the Internal Revenue Code of 1986, as amended, and Section 407(d)(5) of the Employee Retirement Income Security Act of 1974, as amended, or any successor provisions of law, and, if applicable, for a cash payment in lieu of fractional shares, if any, the shares of Series B Preferred Stock of such holder shall, in connection with such consolidation, merger or similar business combination, be assumed by and shall become preferred stock of such successor or resulting corporation, having in respect of such corporation, insofar as possible, the same powers, preferences and relative, participating, optional or other special rights (including the redemption rights provided by Sections 6, 7 and 8 hereof), and the qualifications, limitations or restrictions thereon, that the Series B Preferred Stock had immediately prior to such transaction, except that after such transaction each share of the Series B Preferred Stock shall be

convertible, otherwise on the terms and conditions provided by Section 5 hereof, into the number and kind of qualifying employer securities so receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction; provided, however, that if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, which election cannot practicably be made by the holders of the Series B Preferred Stock, then the shares of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election to receive any kind or amount of stock, securities, cash or other property (other than such qualifying employer securities and a cash payment, if applicable, in lieu of fractional shares) receivable upon such transaction (provided that, if the kind or amount of qualifying employer securities receivable upon such transaction is not the same for each non-electing share, then the kind and amount so receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by the plurality of the non-electing shares). The rights of the Series B Preferred Stock as preferred stock of such successor or resulting corporation shall successively be subject to adjustments pursuant to Section 9 hereof after any such transaction as nearly equivalent as practicable to the adjustment provided for by such section prior to such transaction. The Company shall not consummate any such merger, consolidation or similar transaction unless all then outstanding shares of Series B Preferred Stock shall be assumed and authorized by the successor or resulting corporation as aforesaid.

(B) In the event that the Company shall consummate any consolidation or merger or similar business combination, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged for or changed, reclassified or converted into other stock or securities or cash or any other property, or any combination thereof, other than any such consideration which is constituted solely of qualifying employer securities (as referred to in paragraph (A) of this Section 8) and cash payments, if applicable, in lieu of fractional shares, outstanding shares of Series B Preferred Stock shall, without any action on the part of the Company or any holder thereof (but subject to paragraph (C) of this Section 8), be automatically converted by virtue of such merger, consolidation or similar transaction immediately prior to such consummation into the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted at such time so that each share of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in like kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction; provided, however, that if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, which election cannot practicably be made by the holders of the Series B Preferred Stock, then the shares of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election as to the kind or amount of stock, securities, cash or other property receivable upon such transaction (provided that, if the kind or amount of stock, securities, cash or other property receivable upon such transaction is not the same for each non-electing share, then the kind and amount of stock, securities, cash or other property receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of the non-electing shares).

(C) In the event the Company shall enter into any agreement providing for any consolidation or merger or similar business combination described in paragraph (B) of this Section 8, then the Company shall as soon as practicable thereafter (and in any event at least ten (10) business days before consummation of such transaction) give notice of such agreement and the material terms thereof to each holder of Series B Preferred Stock and each such holder shall have the right to elect, by written notice to the Company, to receive, upon consummation of such transaction (if and when such transaction is consummated), from the Company or the successor of the Company, in redemption and retirement of such Series B Preferred Stock, a cash payment equal to the amount payable in respect of shares of Series B Preferred Stock upon liquidation of the Company pursuant to Section 4 thereof. No such notice of redemption shall be effective unless given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction, unless the Company or the successor of the Company shall waive such prior notice, but any notice of redemption so given prior to such time may be withdrawn by notice of withdrawal given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction.

Section 9. Anti-Dilution Adjustments.

(A) In the event the Company shall, at any time or from time to time while any of the shares of the Series B Preferred Stock are outstanding, (i) pay a dividend or make a distribution in respect of the Common Stock in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, in each case whether by reclassification of shares, recapitalization of the Company (including a recapitalization effected by a

merger or consolidation to which Section 8 hereof does not apply) or otherwise, the Conversion Price in effect immediately prior to such action shall be adjusted by multiplying such Conversion Price by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately before such event, and the denominator of which is the number of shares of Common Stock outstanding immediately after such event. An adjustment made pursuant to this paragraph 9(A) shall be given effect, upon payment of such a dividend or distribution, as of the record date for the determination of stockholders entitled to receive such dividend or distribution (on a retroactive basis) and in the case of a subdivision or combination shall become effective immediately as of the effective date thereof.

(B) In the event that the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue to holders of shares of Common Stock as a dividend or distribution, including by way of a reclassification of shares or a recapitalization of the Company, any right or warrant to purchase shares of Common Stock (but not including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) at a purchase price per share less than the Fair Market Value (as hereinafter defined) of a share of Common Stock on the date of issuance of such right or warrant, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the number of shares of Common Stock which could be purchased at the Fair Market Value of a share of Common Stock at the time of such issuance for the maximum aggregate consideration payable upon exercise in full of all such rights or warrants, and the denominator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the maximum number of shares of Common Stock that could be acquired upon exercise in full of all such rights and warrants.

(C) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue, sell or exchange shares of Common Stock (other than pursuant to any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) and other than pursuant to any employee or director incentive or benefit plan or arrangement, including any employment, severance or consulting agreement, of the Company or any subsidiary of the Company heretofore or hereafter adopted) for a consideration having a Fair Market Value, on the date of such issuance, sale or exchange, less than the Fair Market Value of such shares on the date of issuance, sale or exchange, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the sum of (i) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (ii) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of shares of Common Stock, and the denominator of which shall be the product of (a) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (b) the sum of the number of shares of Common Stock outstanding on such day plus the number of shares of Common Stock so issued, sold or exchanged by the Company. In the event the Company shall, at any time or from time to time while any shares of Series B Preferred Stock are outstanding, issue, sell or exchange any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock), other than any such issuance to holders of shares of Common Stock as a dividend or distribution (including by way of a reclassification of shares or a recapitalization of the Company) and other than pursuant to any employee or director incentive or benefit plan or arrangement (including any employment, severance or consulting agreement) of the Company or any subsidiary of the Company heretofore or hereafter adopted, for a consideration having a Fair Market Value, on the date of such issuance, sale or exchange, less than the Non-Dilutive Amount (as hereinafter defined), then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction the numerator of which shall be the sum of (i) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (ii) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of such right or warrant plus (iii) the Fair Market Value at the time of such issuance of the consideration which the Corporation would receive upon exercise in full of all such rights or warrants, and the denominator of which shall be the product of (a) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (b) the sum of the number of shares of Common Stock outstanding on such day plus the maximum number of shares of Common Stock which could be acquired pursuant to such right or warrant at the time of the issuance, sale or exchange of such right or warrant (assuming shares of Common Stock could be acquired pursuant to such right or warrant at such time).

(D) In the event the Company shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, make an Extraordinary Distribution (as hereinafter defined) in respect of the Common Stock, whether by dividend, distribution, reclassification of shares or recapitalization of the Company (including a recapitalization or reclassification effected by a merger or consolidation to which Section 8 hereof does not apply) or effect a Pro Rata Repurchase (as hereinafter defined) of Common Stock, the Conversion Price in effect immediately prior to such Extraordinary Distribution or Pro Rata Repurchase shall, subject to paragraphs (E) and (F) of this Section 9, be adjusted by multiplying such Conversion Price by the fraction the numerator of which is (i) the product of (x) the number of shares of Common Stock outstanding immediately before such

Extraordinary Distribution or Pro Rata Repurchase multiplied by (y) the Fair Market Value of a share of Common Stock on the day before the ex-dividend date with respect to an Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, or on the applicable expiration date (including all extensions hereof) of any tender offer which is a Pro Rata Repurchase, or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be, minus (ii) the Fair Market Value of the Extraordinary Distribution or the aggregate purchase price of the Pro Rata Repurchase, as the case may be, and the denominator of which shall be the product of (a) the number of shares of Common Stock outstanding immediately before such Extraordinary Dividend or Pro Rata Repurchase minus, in the case of a Pro Rata Repurchase, the number of shares of Common Stock repurchased by the Company multiplied by (b) the Fair Market Value of a share of Common Stock on the day before the ex-dividend date with respect to an Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, or on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be. The Company shall send each holder of Series B Preferred Stock (i) notice of its intent to make any dividend or distribution and (ii) notice of any offer by the Company to make a Pro Rata Repurchase, in each case at the same time as, or as soon as practicable after, such offer is first communicated (including by announcement of a record date in accordance with the rules of any stock exchange on which the Common Stock is listed or admitted to trading) to holders of Common Stock. Such notice shall indicate the intended record date and the amount and nature of such dividend or distribution, or the number of shares subject to such offer for a Pro Rata Repurchase and the purchase price payable by the Company pursuant to such offer, as well as the Conversion Price and the number of shares of Common Stock into which a share of Series B Preferred Stock may be converted at such time.

(E) Notwithstanding any other provisions of this Section 9, the Company shall not be required to make any adjustment to the Conversion Price unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price. Any lesser adjustment shall be carried forward and shall be made no later than the time of, and together with, the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least one percent (1%) in the Conversion Price.

(F) If the Company shall make any dividend or distribution on the Common Stock or issue any Common Stock, other capital stock or other security of the Company or any rights or warrants to purchase or acquire any such security, which transaction does not result in an adjustment to the Conversion Price pursuant to the foregoing provisions of this Section 9, the Board of Directors of the Company shall consider whether such action is of such a nature that an adjustment to the Conversion Price should equitably be made in respect of such transaction. If in such case the Board of Directors of the Company determines that an adjustment to the Conversion Price should be made, an adjustment shall be made effective as of such date, as determined by the Board of Directors of the Company. The determination of the Board of Directors of the Company as to whether an adjustment to the Conversion Price should be made pursuant to the foregoing provisions of this paragraph 9(F), and, if so, as to what adjustment should be made and when, shall be final and binding on the Company and all stockholders of the Company. The Company shall be entitled to make such additional adjustments in the Conversion Price, in addition to those required by the foregoing provisions of this Section 9, as shall be necessary in order that any dividend or distribution in shares of capital stock of the Company, subdivision, reclassification or combination of shares of stock of the Company or any recapitalization of the Company shall not be taxable to the holders of the Common Stock.

(G) For purposes of this Resolution, the following definitions shall apply:

"Business Day" shall mean each day that is not a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York are not required to be open.

"Current Market Price" of publicly traded shares of Common Stock or any other class of capital stock or other security of the Company or any other issuer for any day shall mean the last reported sales price, regular way, or, in the event that no sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if such security is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such security is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on each such day in the over-the-counter market as reported by NASDAQ or, if bid and asked prices for such security on each such day shall not have been reported through NASDAQ, the average of the bid and asked prices for such day as furnished by any New York Stock Exchange member firm regularly making a market in such security selected for such purpose by the Board of Directors of the Company or a committee thereof, in each case, on each trading day during the Adjustment Period. "Adjustment Period" shall mean the period of five (5) consecutive trading days preceding, and including, the date as of which the Fair Market Value of a security is to be determined. The "Fair Market Value" of any security which is not publicly traded or of any other property shall mean the fair value thereof as determined by an independent investment banking or appraisal firm experienced in the valuation of such securities or property selected in good faith by the Board of Directors of the Company or a committee thereof, or, if no such investment banking or appraisal firm is in the good faith judgment of the Board of Directors or such committee available to make such determination, as determined in good faith by the Board of Directors of

the Company or such committee.

"Extraordinary Distribution" shall mean any dividend or other distribution to holders of Common Stock (effected while any of the shares of Series B Preferred Stock are outstanding) (i) of cash, where the aggregate amount of such cash dividend or distribution together with the amount of all cash dividends and distributions made during the preceding period of 12 months, when combined with the aggregate amount of all Pro Rata Repurchases (for this purpose, including only that portion of the aggregate purchase price of such Pro Rata Repurchase which is in excess of the Fair Market Value of the Common Stock repurchased as determined on the applicable expiration date (including all extensions thereof) of any tender offer or exchange offer which is a Pro Rata Repurchase, or the date of purchase with respect to any other Pro Rata Repurchase which is not a tender offer or exchange offer made during such period), exceeds twelve and one-half percent (12 1/2%) of the aggregate Fair Market Value of all shares of Common Stock outstanding on the day before the ex-dividend date with respect to such Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, and/or (ii) of any shares of capital stock of the Company (other than shares of Common Stock), other securities of the Company (other than securities of the type referred to in paragraph (B) or (C) of this Section 9), evidences of indebtedness of the Company or any other person or any other property (including shares of any subsidiary of the Company) or any combination thereof. The Fair Market Value of an Extraordinary Distribution for purposes of paragraph (D) of this Section 9 shall be equal to the sum of the Fair Market Value of such Extraordinary Distribution plus the amount of any cash dividends which are not Extraordinary Distributions made during such 12-month period and not previously included in the calculation of an adjustment pursuant to paragraph (D) of this Section 9.

"Fair Market Value" shall mean, as to shares of Common Stock or any other class of capital stock or securities of the Company or any other issuer which are publicly traded, the average of the Current Market Prices of such shares or securities for each day of the Adjustment Period. "Non-Dilutive Amount" in respect of an issuance, sale or exchange by the Corporation of any right or warrant to purchase or acquire shares of Common Stock (including any security convertible into or exchangeable for shares of Common Stock) shall mean the remainder of (i) the product of the Fair Market Value of a share of Common Stock on the day preceding the first public announcement of such issuance, sale or exchange multiplied by the maximum number of shares of Common Stock which could be acquired on such date upon the exercise in full of such rights and warrants (including upon the conversion or exchange of all such convertible or exchangeable securities), whether or not exercisable (or convertible or exchangeable) at such date, minus (ii) the aggregate amount payable pursuant to such right or warrant to purchase or acquire such maximum number of shares of Common Stock; provided, however, that in no event shall the Non-Dilutive Amount be less than zero. For purposes of the foregoing sentence, in the case of a security convertible into or exchangeable for shares of Common Stock, the amount payable pursuant to a right or warrant to purchase or acquire shares of Common Stock shall be the Fair Market Value of such security on the date of the issuance, sale or exchange of such security by the Company.

"Pro Rata Repurchase" shall mean any purchase of shares of Common Stock by the Company or any subsidiary thereof, whether for cash, shares of capital stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other person or any other property (including shares of a subsidiary of the Company), or any combination thereof, effected while any of the shares of Series B Preferred Stock are outstanding, pursuant to any tender offer or exchange offer subject to Section 13(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision of law, or pursuant to any other offer available to substantially all holders of Common Stock; provided, however, that no purchase of shares by the Company, or any subsidiary thereof made in open market transactions shall be deemed a Pro Rata Repurchase. For purposes of this paragraph 9(G), shares shall be deemed to have been purchased by the Company or any subsidiary thereof "in open market transactions" if they have been purchased substantially in accordance with the requirements of Rule 10b-18 as in effect under the Exchange Act, on the date shares of Series B Preferred Stock are initially issued by the Company or on such other terms and conditions as the Board of Directors of the Company or a committee thereof shall have determined are reasonably designed to prevent such purchases from having a material effect on the trading market for the Common Stock.

(H) Whenever an adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock is required pursuant to this Resolution, the Company shall forthwith place on file with the transfer agent for the Common Stock and the Series B Preferred Stock, and with the Secretary of the Company, a statement signed by two officers of the Company stating the adjusted Conversion Price determined as provided herein and the resulting conversion ratio, and the voting rights (as appropriately adjusted), of the Series B Preferred Stock. Such statement shall set forth in reasonable detail such facts as shall be necessary to show the reason and the manner of computing such adjustment, including any determination of Fair Market Value involved in such computation. Promptly after each adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock, the Company shall mail a notice thereof and of the then prevailing conversion ratio to each holder of shares of the Series B Preferred Stock.

Section 10. Ranking; Attributable Capital and Adequacy of Surplus; Retirement of Shares.

(A) The Series B Preferred Stock shall rank senior to the Common Stock as to the payment of dividends and the distribution of assets on liquidation, dissolution and winding up of the Company, and, unless otherwise provided in the Restated Certificate of Incorporation of the Company, as the same may be amended, or a certificate of designations relating to a subsequent series of Preferred Stock, par value $1.00 per share, of the Company, the Series B Preferred Stock shall rank junior to all series of the Company's

Preferred Stock, par value $1.00 per share, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up.

(B) In addition to any vote of stockholders required by law, the vote of the holders of a majority of the outstanding shares of Series B Preferred Stock shall be required to increase the par value of the Common Stock or otherwise increase the capital of the Company allocable to the Common Stock for the purpose of the Delaware General Corporation Law (the "DGCL") if, as a result thereof, the surplus of the Company for purposes of the DGCL would be less than the amount of Preferred Dividends that would accrue on the then outstanding shares of Series B Preferred Stock during the following three years.

(C) Any shares of Series B Preferred Stock acquired by the Company by reason of the conversion or redemption of such shares as provided by this Resolution, or otherwise so acquired, shall be retired as shares of Series B Preferred Stock and restored to the status of authorized but unissued shares of Preferred Stock, par value $1.00 per share, of the Company, undesignated as to series, and may thereafter be reissued as part of a new series of such Preferred Stock as permitted by law.

Section 11. Miscellaneous.

(A) All notices referred to herein shall be in writing, and all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three (3) business days after the mailing thereof if sent by registered mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Resolution) with postage prepaid, addressed: (i) if to the Company, to its office at 2000 Westchester Avenue, White Plains, New York 10650 (Attention: Secretary) or to the transfer agent for the Series B Preferred Stock, or other agent of the Company designated as permitted by this Resolution or (ii) if to any holder of the Series B Preferred Stock or Common Stock, as the case may be, to such holder at the address of such holder as listed in the stock record books of the Company (which may include the records of any transfer agent for the Series B Preferred Stock or Common Stock, as the case may be) or (iii) to such other address as the Company or any such holder, as the case may be, shall have designated by notice similarly given.

(B) The term "Common Stock" as used in this Resolution means the Company's Common Stock, par value $6.25 per share, as the same exists at the date of filing of a certificate of designations relating to Series B Preferred Stock or any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that, at any time as a result of an adjustment made pursuant to Section 9 of this Resolution, the holder of any share of the Series B Preferred Stock upon thereafter surrendering such shares for conversion, shall become entitled to receive any shares or other securities of the Company other than shares of Common Stock, the Conversion Price in respect of such other shares or securities so receivable upon conversion of shares of Series B Preferred Stock shall thereafter be adjusted, and shall be subject to further adjustment from time to time, in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in Section 9 hereof, and the provisions of Sections 1 through 8, 10 and 11 of this Resolution with respect to the Common Stock shall apply on like or similar terms to any such other shares or securities.

(C) The Company shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series B Preferred Stock or shares of Common Stock or other securities issued on account of Series B Preferred Stock pursuant hereto or certificates representing such shares or securities. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Series B Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series B Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person with respect to any such shares or securities other than a payment, to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid or is not payable.

(D) In the event that a holder of shares of Series B Preferred Stock shall not by written notice designate the name in which shares of Common Stock to be issued upon conversion of such shares should be registered or to whom payment upon redemption of shares of Series B Preferred Stock should be made or the address to which the certificate or certificates representing such shares, or such payment, should be sent, the Company shall be entitled to register such shares, and make such payment, in the name of the holder of such Series B Preferred Stock as shown on the records of the Company and to send the certificate or certificates representing such shares, or such payment, to the address of such holder shown on the records of the Company.

(E) Unless otherwise provided in the Restated Certificate of Incorporation, as the same may be amended, of the Company, all payments in the form of dividends, distributions on voluntary or involuntary dissolution, liquidation or winding-up or otherwise made upon the shares of Series B Preferred Stock and any other stock ranking on a parity with the Series B Preferred Stock with respect to such dividend or distribution shall be pro rata, so that amounts paid per share on the Series B Preferred Stock and such other stock shall in all cases bear to each other the same ratio that the required dividends, distributions or payments, as the case may be, then payable per share on the shares of the Series B Preferred Stock and such other stock bear to each other.

(F) The Company may appoint, and from time to time discharge and change, a transfer agent for the Series B Preferred Stock. Upon any such appointment or discharge of a transfer agent, the Company shall send notice thereof by first-class mail postage prepaid, to each holder or record of Series B Preferred Stock.

Series D Junior Participating Preferred Stock

Section 1. Designation and Amount.

The shares of such series shall be designated as "Series D Junior Participating Preferred Stock" and the number of shares constituting such series shall be 3,000,000.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series D Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series D Junior Participating Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the 15th day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series D Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $5.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of common stock, par value $6.25 per share, of the Company (the "Common Stock") or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series D Junior Participating Preferred Stock. In the event the Company shall at any time after March 16, 1989 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series D Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Company shall declare a dividend or distribution on the Series D Junior Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $5.00 per share on the Series D Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series D Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series D Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series D Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series D Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series D Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 45 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights.

The holders of shares of Series D Junior Participating Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series D Junior Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Company. In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series D Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the

number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series D Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Company.

(C) If at the time of any annual meeting of stockholders for the election of directors, the equivalent of six quarterly dividends (whether or not consecutive) payable on any share or shares of preferred stock are in default, the number of directors constituting the Board of Directors of the Company shall be increased by two. The holders of record of the Series D Junior Participating Preferred Stock, voting separately as a class with the holders of shares of any one or more other series of preferred stock upon which like voting rights have been conferred, shall be entitled at said meeting of stockholders (and at each subsequent annual meeting of stockholders), unless all dividends in arrears have been paid or declared and set apart for payment prior thereto, to vote for the election of two directors of the Company, the holders of any Series D Junior Participating Preferred Stock being entitled to cast 100 votes per share of Series D Junior Participating Preferred Stock, with the remaining directors of the Company to be elected by the holders of shares of any other class or classes or series of stock entitled to vote therefor. Until the default in payments of all dividends which permitted the election of said directors shall cease to exist, any director who shall have been so elected pursuant to the next preceding sentence may be removed at any time, either with or without cause, only by the affirmative vote of the holders of the shares at the time entitled to cast a majority of the votes entitled to be cast for the election of any such director at a special meeting of such holders called for that purpose, and any vacancy thereby created may be filled by the vote of such holders. If and when such default shall cease to exist, the holders of the Series D Junior Participating Preferred Stock and the holders of shares of any one or more series of preferred stock upon which like voting rights have been conferred shall be divested of the foregoing special voting rights, subject to revesting in the event of each and every subsequent like default in payments of dividends. Upon the termination of the foregoing special voting rights, the terms of office of all persons who may have been elected directors pursuant to said special voting rights shall forthwith terminate, and the number of directors constituting the Board of Directors shall be reduced by two.

(D) Except as set forth herein, holders of Series D Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(A) In the event that full cumulative dividends on the Series D Junior Participating Preferred Stock have not been declared and paid or set apart for payment when due, the Company shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of any other class of stock or series thereof of the Company ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series D Junior Participating Preferred Stock until full cumulative dividends on the Series D Junior Participating Preferred Stock shall have been paid or declared and set apart for payment; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series D Junior Participating Preferred Stock or (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series D Junior Participating Preferred Stock in exchange solely for shares of any other stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series D Junior Participating Preferred Stock.

(B) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares.

Any shares of Series D Junior Participating Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series D Junior Participating Preferred Stock shall have received $100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series D Liquidation Preference"). Following the payment of the full amount of the Series D Liquidation Preference, no additional distributions shall be made to

the holders of shares of Series D Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series D Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii) immediately above being referred to as the "Adjustment Number"). Following the payment of the full amount of the Series D Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series D Junior Participating Preferred Stock and Common Stock, respectively, holders of Series D Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to one (1) with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series D Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series D Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc.

In case the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series D Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Company shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series D Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. Redemption.

The outstanding shares of Series D Junior Participating Preferred Stock may be redeemed at the option of the Board of Directors as a whole, or in part, at any time, or from time to time, at a cash price per share equal to the product of the Adjustment Number times the Average Market Value (as such term is hereinafter defined) of the Common Stock on the date of mailing of the notice of redemption, plus all dividends which on the redemption date have accrued on the shares to be redeemed and have not been paid, or declared and a sum sufficient for the payment thereof set apart, without interest. The "Average Market Value" as of a particular date is the average of the closing sale prices of the Common Stock during the 10 consecutive Trading Day period immediately preceding such date on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the average of the closing sale prices with respect to a share of Common Stock during such 10-day period, as quoted on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value of the Common Stock as determined by the Board of Directors in good faith. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading is open for the transaction of business or, if the Common Stock is not listed or admitted to trading on any national securities exchange, a Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the State of New York are not authorized or obligated by law or executive order to close.

Section 9. Ranking.

The Series D Junior Participating Preferred Stock shall rank junior to the Company's Series B ESOP Convertible Preferred Stock, and shall rank junior to all other series of the Company's Preferred Stock unless the terms of any such other series shall provide otherwise, as to the payment of dividends and the distribution of assets.

Section 10. Amendment.

The Restated Certificate of Incorporation of the Company shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series D Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series D Junior Participating Preferred Stock, voting separately as a class.

Section 11. Fractional Shares.

Series D Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series D Junior Participating Preferred Stock.

Series F ESOP Convertible Preferred Stock

Section 1. Designation and Amount; Special Purpose Restricted Transfer Issue.

(A) The shares of such series shall be designated as "Series F ESOP Convertible Preferred Stock" ("Series F Preferred Stock") and the number of shares constituting such series shall be 67,796.61.

(B) Shares of Series F Preferred Stock shall be issued only to State Street Bank and Trust Company, as a trustee (the "Trustee") of the Employees Savings Plan of the Company (the "Plan"). All references to the holder of shares of Series F Preferred Stock shall mean the Trustee or any successor trustee under the Plan. In the event of any transfer of record ownership of shares of Series F Preferred Stock to any person other than any successor trustee under the Plan, the shares of Series F Preferred Stock so transferred, upon such transfer and without any further action by the Company or the holder thereof, shall be automatically converted into shares of Common Stock on the terms otherwise provided for the conversion of shares of Series F Preferred Stock into shares of Common Stock pursuant to Section 5 hereof and no such transferee shall have any of the voting powers, preferences and relative, participating, optional or special rights ascribed to shares of Series F Preferred Stock hereunder but, rather, only the powers and rights pertaining to the Common Stock into which such shares of Series F Preferred Stock shall be so converted. In the event of such a conversion, the transferee of the shares of Series F Preferred Stock shall be treated for all purposes as the record holder of the shares of Common Stock into which such shares of Series F Preferred Stock have been automatically converted as of the date of such transfer. Certificates representing shares of Series F Preferred Stock shall bear a legend to reflect the foregoing provisions. Notwithstanding the foregoing provisions of this paragraph (B) of Section 1, shares of Series F Preferred Stock (i) may be converted into shares of Common Stock as provided by Section 5 hereof and the shares of Common Stock issued upon such conversion may be transferred by the holder thereof as permitted by law and (ii) shall be redeemable by the Company upon the terms and conditions provided by Sections 6, 7 and 8 hereof.

Section 2. Dividends and Distributions.

(A) Subject to the provisions for adjustment hereinafter set forth, the holders of shares of Series F Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cash dividends ("Preferred Dividends") in an amount per share equal to $64.53 per share per annum, and no more, payable semi-annually in arrears, one-half on the 13th day of February and one-half on the 13th day of August of each year (each a "Dividend Payment Date") commencing on August 13, 1990, to holders of record at the start of business on such Dividend Payment Date. In the event that any Dividend Payment Date shall fall on any day other than a "Business Day" (as hereinafter defined), the dividend payment due on such Dividend Payment Date shall be paid on the Business Day immediately preceding such Dividend Payment Date. Preferred Dividends shall begin to accrue on outstanding shares of Series F Preferred Stock from the date of issuance of such shares of Series F Preferred Stock. Preferred Dividends shall accrue on a daily basis whether or not the Company shall have earnings or surplus at the time, but Preferred Dividends accrued after issuance on the shares of Series F Preferred Stock for any period less than a full semi-annual period between Dividend Payment Dates shall be computed on the basis of a 360-day year of 30-day months. Accrued but unpaid Preferred Dividends shall cumulate as of the Dividend Payment Date on which they first become payable, but no interest shall accrue on accumulated but unpaid Preferred Dividends.

(B) So long as any shares of Series F Preferred Stock shall be outstanding, no dividend shall be declared or paid or set apart for payment on any other series of stock ranking on a parity with the Series F Preferred Stock as to dividends, unless there shall also be or have been declared and paid or set apart for payment on the Series F Preferred Stock, dividends for all dividend payment periods of the Series F Preferred Stock ending on or before the dividend payment date of such parity stock, ratably in proportion to the respective amounts of dividends accumulated and unpaid through such dividend period on the Series F Preferred Stock and accumulated and unpaid on such parity stock through the dividend payment period on such parity stock next preceding such dividend payment date. In the event that full cumulative dividends on the Series F Preferred Stock have not been declared and paid or set apart for payment when due, the Company shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of any other class of stock or series thereof of the Company ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series F Preferred Stock until full cumulative dividends on the Series F Preferred Stock shall have been paid or declared and set apart for payment; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock

ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series F Preferred Stock or (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series F Preferred Stock in exchange solely for shares of any other stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Company, junior to the Series F Preferred Stock.

Section 3. Voting Rights.

The holders of shares of Series F Preferred Stock shall have the following voting rights:

(A) The holders of Series F Preferred Stock shall be entitled to vote on all matters submitted to a vote of the stockholders of the Company, voting together with the holders of Common Stock as one class. The holder of each share of Series F Preferred Stock shall be entitled to a number of votes equal to the number of shares of Common Stock into which such share of Series F Preferred Stock could be converted on the record date for determining the stockholders entitled to vote, rounded to the nearest one-tenth of a vote; it being understood that whenever the "Conversion Price" (as defined in Section 5 hereof) is adjusted as provided in Section 9 hereof, the voting rights of the Series F Preferred Stock shall also be similarly adjusted.

(B) Except as otherwise required by law or set forth herein, holders of Series F Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for the taking of any corporate action; provided, however, that the vote of at least 66 2/3% of the outstanding shares of Series F Preferred Stock, voting separately as a series, shall be necessary to adopt any alteration, amendment or repeal of any provision of the Restated Certificate of Incorporation of the Company, as amended, or this Resolution (including any such alteration, amendment or repeal effected by any merger or consolidation in which the Company is the surviving or resulting corporation), if such amendment, alteration or repeal would alter or change the powers, preferences, or special rights of the shares of Series F Preferred Stock so as to affect them adversely.

Section 4. Liquidation, Dissolution or Winding Up.

(A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series F Preferred Stock shall be entitled to receive out of assets of the Company which remain after satisfaction in full of all valid claims of creditors of the Company and which are available for payment to stockholders, and subject to the rights of the holders of any stock of the Company ranking senior to or on a parity with the Series F Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, before any amount shall be paid or distributed among the holders of Common Stock or any other shares ranking junior to the Series F Preferred Stock in respect of distributions upon liquidation, dissolution or winding up of the Company, liquidating distributions in the amount of $737.50 per share, plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for distribution, and no more. If upon any liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Series F Preferred Stock and any other stock ranking as to any such distribution on a parity with the Series F Preferred Stock are not paid in full, the holders of the Series F Preferred Stock and such other stock shall share ratably in any distribution of assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount to which they are entitled as provided by the foregoing provisions of this paragraph 4(A), the holders of shares of Series F Preferred Stock shall not be entitled to any further right or claim to any of the remaining assets of the Company.

(B) Neither the merger or consolidation of the Company with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Company, nor the sale, lease, exchange or other transfer of all or any portion of the assets of the Company, shall be deemed to be a dissolution, liquidation or winding up of the affairs of the Company for purposes of this Section 4, but the holders of Series F Preferred Stock shall nevertheless be entitled in the event of any such merger or consolidation to the rights provided by Section 8 hereof.

(C) Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable to holders of Series F Preferred Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than twenty (20) days prior to any payment date stated therein, to the holders of Series F Preferred Stock, at the address shown on the books of the Company or any transfer agent for the Series F Preferred Stock.

Section 5. Conversion into Common Stock.

(A) A holder of shares of Series F Preferred Stock shall be entitled, at any time prior to the close of business on the date fixed for redemption of such shares pursuant to Sections 6, 7 and 8 hereof, to cause any or all of such shares to be converted into shares of Common Stock, initially at a conversion rate equal to the ratio of $737.50 to the amount which initially shall be $73.75 and which shall be adjusted as hereinafter provided (and, as so adjusted, is hereinafter sometimes referred to as the "Conversion Price") (that is, a conversion rate initially equivalent to ten shares of Common Stock for each share of Series F Preferred Stock so converted, which is subject to adjustment as the Conversion Price is adjusted as hereinafter provided).

(B) Any holder of shares of Series F Preferred Stock desiring

to convert such shares into shares of Common Stock shall surrender the certificate or certificates representing the shares of Series F Preferred Stock being converted, duly assigned or endorsed for transfer to the Company (or accompanied by duly executed stock powers relating thereto), at the principal executive office of the Company or the offices of the transfer agent for the Series F Preferred Stock or such office or offices in the continental United States of an agent for conversion as may from time to time be designated by notice to the holders of the Series F Preferred Stock by the Company or the transfer agent for the Series F Preferred Stock, accompanied by written notice of conversion. Such notice of conversion shall specify (i) the number of shares of Series F Preferred Stock to be converted and the name or names in which such holder wishes the certificates certificate or for Common Stock and for any shares of Series F Preferred Stock not to be so converted to be issued and (ii) the address to which such holder wishes delivery to be made of such new certificates to be issued upon such conversion.

(C) Upon surrender of a certificate representing a share or shares of Series F Preferred Stock for conversion, the Company shall issue and send by hand delivery (with receipt to be acknowledged) or by first-class mail, postage prepaid, to the holder thereof or to such holder's designee, at the address designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled upon conversion. In the event that there shall have been surrendered a certificate or certificates representing shares of Series F Preferred Stock, only part of which are to be converted, the Company shall issue and deliver to such holder or such holder's designee a new certificate or certificates representing the number of shares of Series F Preferred Stock which shall not have been converted.

(D) The issuance by the Company of shares of Common Stock upon a conversion of shares of

Series F Preferred Stock into shares of Common Stock made at the option of the holder thereof shall be effective as of the earlier of (i) the delivery to such holder or such holder's designee of the certificates representing the shares of Common Stock issued upon conversion thereof or (ii) the commencement of business on the second business day after the surrender of the certificate or certificates for the shares of Series F Preferred Stock to be converted, duly assigned or endorsed for transfer to the Corporation (or accompanied by duly executed stock powers relating thereto) as provided by this Resolution. On and after the effective day of conversion, the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock, but no allowance or adjustment shall be made in respect of dividends payable to holders of Common Stock in respect of any period prior to such effective date. The Company shall not be obligated to pay any dividends which shall have been declared and shall be payable to holders of shares of Series F Preferred Stock on a Dividend Payment Date if such Dividend Payment Date for such dividend is subsequent to the effective date of conversion of such shares.

(E) The Company shall not be obligated to deliver to holders of Series F Preferred Stock any fractional share or shares of Common Stock issuable upon any conversion of such shares of Series F Preferred Stock, but in lieu thereof may make a cash payment in respect thereof in any manner permitted by law.

(F) The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for issuance upon the conversion of shares of Series F Preferred Stock as herein provided, free from any preemptive rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Series F Preferred Stock then outstanding. Nothing contained herein shall preclude the Company from issuing shares of Common Stock held in its treasury upon the conversion of shares of Series F Preferred Stock into Common Stock pursuant to the terms hereof. The Company shall prepare and shall use its best efforts to obtain and keep in force such governmental or regulatory permits or other authorizations as may be required by law, and shall comply with all requirements as to registration or qualification of the Common Stock, in order to enable the Company lawfully to issue and deliver to each holder of record of Series F Preferred Stock such number of shares of its Common Stock as shall from time to time be sufficient to effect the conversion of all shares of Series F Preferred Stock then outstanding and convertible into shares of Common Stock.

Section 6. Redemption At the Option of the Company.

(A) The Series F Preferred Stock shall be redeemable, in whole or in part, at the option of the Company at any time after February 13, 1993, or at any time after the date of issuance, if permitted by paragraph (D) of this Section 6, at the following redemption prices per share:

During the Twelve-Month Period Beginning February 13	Price Per Share
1990	$802.03
1991	$795.58
1992	$789.12
1993	$782.67
1994	$776.22
1995	$769.77
1996	$763.31
1997	$756.86
1998	$750.41
1999	$743.95

and thereafter at $737.50 per share, plus, in each case, an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption. Payment of the redemption price shall be made by the Company in cash or shares

of Common Stock, or a combination thereof, as permitted by paragraph (F) of this Section 6. From and after the date fixed for redemption, dividends on shares of Series F Preferred Stock called for redemption will cease to accrue, such shares will no longer be deemed to be outstanding and all rights in respect of such shares of the Company shall cease, except the right to receive the redemption price. If less than all of the outstanding shares of Series F Preferred Stock are to be redeemed, the Company shall either redeem a portion of the shares of each holder determined pro rata based on the number of shares held by each holder or shall select the shares to be redeemed by lot, as may be determined by the Board of Directors of the Company.

(B) Unless otherwise required by law, notice of redemption will be sent to the holders of Series F Preferred Stock at the address shown on the books of the Company or any transfer agent for the Series F Preferred Stock by first-class mail, postage prepaid, mailed not less than twenty (20) days nor more than sixty (60) days prior to the redemption date. Each such notice shall state: (i) the redemption date; (ii) the total number of shares of the Series F Preferred Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date; and (vi) the conversion rights of the shares to be redeemed, the period within which conversion rights may be exercised, and the Conversion Price and number of shares of Common Stock issuable upon conversion of a share of Series F Preferred Stock at the time. Upon surrender of the certificate for any shares so called for redemption and not previously converted (properly endorsed or assigned for transfer, if the Board of Directors of the Company shall so require and the notice shall so state), such shares shall be redeemed by the Company at the date fixed for redemption and at the redemption price set forth in this Section 6.

(C) In the event of a change in the federal tax law of the United States of America which has the effect of materially limiting the Company from claiming any of the tax deductions for dividends paid on the Series F Preferred Stock when such dividends are used as provided under Section 404(k)(2) of the Internal Revenue Code of 1986, as amended and in effect on the date shares of Series F Preferred Stock are initially issued, the Company may, in its sole discretion and notwithstanding anything to the contrary in paragraph (A) of this Section 6, elect to redeem any or all of such shares for the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof.

(D) Notwithstanding anything to the contrary in paragraph (A) of this Section 6, the Company may elect to redeem any or all of the shares of Series F Preferred Stock at any time on or prior to February 13, 1993 on the terms and conditions set forth in paragraphs (A) and (B) of this Section 6, if the last reported sales price, regular way, of a share of Common Stock, as reported on the New York Stock Exchange Composite Tape or, if the Common Stock is not listed or admitted to trading on the New York Stock Exchange, Inc. (the "NYSE"), on the principal national securities exchange on which such stock is listed or admitted to trading or, if the Common Stock is not listed or admitted to trading on any national securities exchange, on the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or, if Common Stock is not quoted on such National Market System, the average of the closing bid and asked prices in the over-the-counter market as reported by NASDAQ, for at least twenty (20) trading days within a period of thirty (30) consecutive trading days ending within five (5) days of the notice of redemption, equals or exceeds one hundred fifty percent (150%) of the Conversion Price (giving effect in making such calculation to any adjustments required by Section 9 hereof).

(E) In the event that shares of Series F Preferred Stock are held by an employee benefit plan intended to qualify as an employee stock ownership plan within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), and such plan does not so qualify, the Corporation may in its sole discretion and notwithstanding anything to the contrary in paragraph (A) of this Section 6, elect to redeem any or all of such shares of Series F Preferred Stock for the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof.

(F) In the event that the Plan is terminated or the employee stock ownership plan component of the Plan pursuant to which the shares of Series F Preferred Stock are then held by the Trustee is eliminated from the Plan in accordance with its terms, and notwithstanding anything to the contrary in paragraph (A) of this Section 6, the Company shall, as soon thereafter as practicable, call for redemption all then outstanding shares of Series F Preferred Stock for the amount payable in respect of the shares upon liquidation of the Company pursuant to Section 4 hereof.

(G) The Company, at its option, may make payment of the redemption price required upon redemption of shares of Series F Preferred Stock in cash or in shares of Common Stock, or in a combination of such shares and cash, any such shares of Common Stock to be valued for such purposes at their Fair Market Value (as defined in paragraph (G) of Section 9 hereof).

Section 7. Other Redemption Rights.

Shares of Series F Preferred Stock shall be redeemed by the Company for cash or, if the Company so elects, in shares of Common Stock, or a combination of such shares and cash, any such shares of Common Stock to be valued for such purpose as provided by paragraph (G) of Section 6, at a redemption price of $737.50 per share plus accrued and unpaid dividends thereon to the date fixed for redemption, at the option of the holder, at any time and from time to time upon notice to the Company given not less than five (5) business days prior to the date fixed by the holder in such notice for such redemption, upon certification by such holder to the Company of the following events: (i) when and to the extent necessary for such holder to

provide for distributions required to be made to participants under, or to satisfy an investment election provided to participants in accordance with, the Plan, or any successor plan; (ii) when and to the extent necessary for such holder to make any payments of principal, interest or premium due and payable (whether as scheduled or upon accelleration) under the Loan Agreement among the Trustee, certain banking parties thereto (collectively the "Banks") and Chase Manhattan Bank (National Association), as agent for the Banks or any indebtedness incurred by the holder for the benefit of the Plan; or (iii) in the event that the Plan is not initially determined by the Internal Revenue Service to be qualified within the meaning of Sections 401(a) and 4975(e)(7) of the Internal Revenue Code of 1986, as amended.

Section 8. Consolidation, Merger, etc.

(A) In the event that the Company shall consummate any consolidation or merger or similar business combination, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged solely for or changed, reclassified or converted solely into stock of any successor or resulting corporation (including the Company) that constitutes "qualifying employer securities" with respect to a holder of Series F Preferred Stock within the meaning of Section 409(1) of the Code and Section 407(d)(5) of the Employee Retirement Income Security Act of 1974, as amended, or any successor provisions of law, and, if applicable, for a cash payment in lieu of fractional shares, if any, the shares of Series F Preferred Stock of such holder shall, in connection with such consolidation, merger or similar business combination, be assumed by and shall become preferred stock of such successor or resulting corporation, having in respect of such corporation, insofar as possible, the same powers, preferences and relative, participating, optional or other special rights (including the redemption rights provided by Sections 6, 7 and 8 hereof), and the qualifications, limitations or restrictions thereon, that the Series F Preferred Stock had immediately prior to such transaction, except that after such transaction each share of the Series F Preferred Stock shall be convertible, otherwise on the terms and conditions provided by Section 5 hereof, into the number and kind of qualifying employer securities so receivable by a holder of the number of shares of Common Stock into which such shares of Series F Preferred Stock could have been converted immediately prior to such transaction; provided, however, that if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, which election cannot practicably be made by the holders of the Series F Preferred Stock, then the shares of Series F Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series F Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election to receive any kind or amount of stock, securities, cash or other property (other than such qualifying employer securities and a cash payment, if applicable, in lieu of fractional shares) receivable upon such transaction (provided that, if the kind or amount of qualifying employer securities receivable upon such transaction is not the same for each non-electing share, then the kind and amount so receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by the plurality of the non-electing shares). The rights of the Series F Preferred Stock as preferred stock of such successor or resulting corporation shall successively be subject to adjustments pursuant to Section 9 hereof after any such transaction as nearly equivalent as practicable to the adjustment provided for by such section prior to such transaction. The Company shall not consummate any such merger, consolidation or similar transaction unless all then outstanding shares of Series F Preferred Stock shall be assumed and authorized by the successor or resulting corporation as aforesaid.

(B) In the event that the Company shall consummate any consolidation or merger or similar business combination, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged for or changed, reclassified or converted into other stock or securities or cash or any other property, or any combination thereof, other than any such consideration which is constituted solely of qualifying employer securities (as referred to in paragraph (A) of this Section 8) and cash payments, if applicable, in lieu of fractional shares, outstanding shares of Series F Preferred Stock shall, without any action on the part of the Company or any holder thereof (but subject to paragraph (C) of this Section 8), be automatically converted by virtue of such merger, consolidation or similar transaction immediately prior to such consummation into the number of shares of Common Stock into which such shares of Series F Preferred Stock could have been converted at such time so that each share of Series F Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in like kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series F Preferred Stock could have been converted immediately prior to such transaction; provided, however, that if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, which election cannot practicably be made by the holders of the Series F Preferred Stock, then the shares of Series F Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in kind) receivable by a holder of the number of shares of Common Stock into which such shares of Series F Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election as to the kind or amount of stock, securities, cash or other property receivable upon such transaction (provided that, if the kind or amount of stock, securities, cash or other property receivable upon such transaction is

not the same for each non-electing share, then the kind and amount of stock, securities, cash or other property receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of the non-electing shares).

(C) In the event the Company shall enter into any agreement providing for any consolidation or merger or similar business combination described in paragraph (B) of this Section 8, then the Company shall as soon as practicable thereafter (and in any event at least ten (10) business days before consummation of such transaction) give notice of such agreement and the material terms thereof to each holder of Series F Preferred Stock and each such holder shall have the right to elect, by written notice to the Company, to receive, immediately prior to the consummation of such transaction (if and when such transaction is consummated), from the Company or the successor of the Company, in redemption and retirement of such Series F Preferred Stock, a cash payment equal to the amount payable in respect of shares of Series F Preferred Stock upon liquidation of the Company pursuant to Section 4 thereof. No such notice of redemption shall be effective unless given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction, unless the Company or the successor of the Company shall waive such prior notice, but any notice of redemption so given prior to such time may be withdrawn by notice of withdrawal given to the Company prior to the close of business on the fifth business day prior to consummation of such transaction.

Section 9. Anti-Dilution Adjustments.

(A) In the event the Company shall, at any time or from time to time while any of the shares of the Series F Preferred Stock are outstanding, (i) pay a dividend or make a distribution in respect of the Common Stock in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, in each case whether by reclassification of shares, recapitalization of the Company (including a recapitalization effected by a merger or consolidation to which Section 8 hereof does not apply) or otherwise, the Conversion Price in effect immediately prior to such action shall be adjusted by multiplying such Conversion Price by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately before such event, and the denominator of which is the number of shares of Common Stock outstanding immediately after such event. An adjustment made pursuant to this paragraph 9(A) shall be given effect, upon payment of such a dividend or distribution, as of the record date for the determination of stockholders entitled to receive such dividend or distribution (on a retroactive basis) and in the case of a subdivision or combination shall become effective immediately as of the effective date thereof.

(B) In the event that the Company shall, at any time or from time to time while any of the shares of Series F Preferred Stock are outstanding, issue to holders of shares of Common Stock as a dividend or distribution, including by way of a reclassification of shares or a recapitalization of the Company, any right or warrant to purchase shares of Common Stock (but not including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) at a purchase price per share less than the Fair Market Value (as hereinafter defined) of a share of Common Stock on the date of issuance of such right or warrant, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the number of shares of Common Stock which could be purchased at the Fair Market Value of a share of Common Stock at the time of such issuance for the maximum aggregate consideration payable upon exercise in full of all such rights or warrants, and the denominator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the maximum number of shares of Common Stock that could be acquired upon exercise in full of all such rights and warrants.

(C) In the event the Company shall, at any time or from time to time while any of the shares of Series F Preferred Stock are outstanding, issue, sell or exchange shares of Common Stock (other than pursuant to any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) and other than pursuant to any employee or director incentive or benefit plan or arrangement, including any employment, severance or consulting agreement, of the Company or any subsidiary of the Company heretofore or hereafter adopted) for a consideration having a Fair Market Value, on the date of such issuance, sale or exchange, less than the Fair Market Value of such shares on the date of issuance, sale or exchange, then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the sum of (i) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (ii) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of shares of Common Stock, and the denominator of which shall be the product of (a) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (b) the sum of the number of shares of Common Stock outstanding on such day plus the number of shares of Common Stock so issued, sold or exchanged by the Company. In the event the Company shall, at any time or from time to time while any shares of Series F Preferred Stock are outstanding, issue, sell or exchange any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock), other than any such issuance to holders of shares of Common Stock as a dividend or distribution (including by way of a reclassification of shares or a recapitalization of the Company) and other than pursuant to any employee or director incentive or benefit plan or arrangement (including any employment,

severance or consulting agreement) of the Company or any subsidiary of the Company heretofore or hereafter adopted, for a consideration having a Fair Market Value, on the date of such issuance, sale or exchange, less than the Non-Dilutive Amount (as hereinafter defined), then, subject to the provisions of paragraphs (E) and (F) of this Section 9, the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction the numerator of which shall be the sum of (I) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (II) the Fair Market Value of the consideration received by the Company in respect of such issuance, sale or exchange of such right or warrant plus (III) the Fair Market Value at the time of such issuance of the consideration which the Company would receive upon exercise in full of all such rights or warrants, and the denominator of which shall be the product of (A) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (B) the sum of the number of shares of Common Stock outstanding on such day plus the maximum number of shares of Common Stock which could be acquired pursuant to such right or warrant at the time of the issuance, sale or exchange of such right or warrant (assuming shares of Common Stock could be acquired pursuant to such right or warrant at such time).

(D) In the event the Company shall, at any time or from time to time while any of the shares of Series F Preferred Stock are outstanding, make an Extraordinary Distribution (as hereinafter defined) in respect of the Common Stock, whether by dividend, distribution, reclassification of shares or recapitalization of the Company (including a recapitalization or reclassification effected by a merger or consolidation to which Section 8 hereof does not apply) or effect a Pro Rata Repurchase (as hereinafter defined) of Common Stock, the Conversion Price in effect immediately prior to such Extraordinary Distribution or Pro Rata Repurchase shall, subject to paragraphs (E) and (F) of this Section 9, be adjusted by multiplying such Conversion Price by the fraction the numerator of which is (i) the product of (x) the number of shares of Common Stock outstanding immediately before such Extraordinary Distribution or Pro Rata Repurchase multiplied by (y) the Fair Market Value of a share of Common Stock on the day before the ex-dividend date with respect to an Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, or the earlier of the ex-dividend date and the distribution date in the event of an Extraordinary Distribution, a portion of which is paid in cash and a portion of which is paid other than in cash, or on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase, or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be, minus (ii) the Fair Market Value of the Extraordinary Distribution or the aggregate purchase price of the Pro Rata Repurchase, as the case may be, and the denominator of which shall be the product of (a) the number of shares of Common Stock outstanding immediately before such Extraordinary Dividend or Pro Rata Repurchase minus, in the case of a Pro Rata Repurchase, the number of shares of Common Stock repurchased by the Company multiplied by (b) the Fair Market Value of a share of Common Stock on the day before the ex-dividend date with respect to an Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, or the earlier of the ex-dividend date and the distribution date in the event of an Extraordinary Distribution, a portion of which is paid in cash and a portion of which is paid other than in cash, or on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be. The Company shall send each holder of Series F Preferred Stock (i) notice of its intent to make any dividend or distribution and (ii) notice of any offer by the Company to make a Pro Rata Repurchase, in each case at the same time as, or as soon as practicable after, such offer is first communicated (including by announcement of a record date in accordance with the rules of any stock exchange on which the Common Stock is listed or admitted to trading) to holders of Common Stock. Such notice shall indicate the intended record date and the amount and nature of such dividend or distribution, or the number of shares subject to such offer for a Pro Rata Repurchase and the purchase price payable by the Company pursuant to such offer, as well as the Conversion Price and the number of shares of Common Stock into which a share of Series F Preferred Stock may be converted at such time.

(E) Notwithstanding any other provisions of this Section 9, the Company shall not be required to make any adjustment to the Conversion Price unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price. Any lesser adjustment shall be carried forward and shall be made no later than the time of, and together with, the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least one percent (1%) in the Conversion Price.

(F) If the Company shall make any dividend or distribution on the Common Stock or issue any Common Stock, other capital stock or other security of the Company or any rights or warrants to purchase or acquire any such security, which transaction does not result in an adjustment to the Conversion Price pursuant to the foregoing provisions of this Section 9, the Board of Directors of the Company shall consider whether such action is of such a nature that an adjustment to the Conversion Price should equitably be made in respect of such transaction. If in such case the Board of Directors of the Company determines that an adjustment to the Conversion Price should be made, an adjustment shall be made effective as of such date, as determined by the Board of Directors of the Company. The determination of the Board of Directors of the Company as to whether an adjustment to the Conversion Price should be made pursuant to the foregoing provisions of this paragraph 9(F), and, if so, as to what adjustment should be made and when, shall be final and binding on the Company and all stockholders of the Company. The Company shall be entitled to make such additional adjustments in the Conversion Price, in

addition to those required by the foregoing provisions of this Section 9, as shall be necessary in order that any dividend or distribution in shares of capital stock of the Company, subdivision, reclassification or combination of shares of stock of the Company or any recapitalization of the Company shall not be taxable to the holders of the Common Stock.

(G) For purposes of this Resolution, the following definitions shall apply:

"Business Day" shall mean each day that is not a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York, are not required to be open.

"Current Market Price" of publicly traded shares of Common Stock or any other class of capital stock or other security of the Company or any other issuer for any day shall mean the last reported sales price, regular way, or, in the event that no sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if such security is not listed or admitted to trading on the NYSE, on the principal national securities exchange on which such security is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on each such day in the over-the-counter market as reported by NASDAQ or, if bid and asked prices for such security on each such day shall not have been reported through NASDAQ, the average of the bid and asked prices for such day as furnished by any NYSE member firm regularly making a market in such security selected for such purpose by the Board of Directors of the Company or a committee thereof, in each case, on each trading day during the Adjustment Period.

"Adjustment Period" shall mean the period of five (5) consecutive trading days preceding, and including, the date as of which the Fair Market Value of a security is to be determined. The "Fair Market Value" of any security which is not publicly traded or of any other property shall mean the fair value thereof as determined by an independent investment banking or appraisal firm experienced in the valuation of such securities or property selected in good faith by the Board of Directors of the Company or a committee thereof, or, if no such investment banking or appraisal firm is in the good faith judgment of the Board of Directors or such committee available to make such determination, as determined in good faith by the Board of Directors of the Company or such committee.

"Extraordinary Distribution" shall mean any dividend or other distribution to holders of Common Stock (effected while any of the shares of Series F Preferred Stock are outstanding) (i) of cash (other than a regularly scheduled quarterly dividend not exceeding 120% of the average quarterly dividends for the preceding period of 12 months), where the aggregate amount of such cash dividend or distribution together with the amount of all cash dividends and distributions made during the preceding period of 12 months (other than regularly scheduled quarterly dividends not exceeding 120% of the aggregate quarterly dividends for the preceding period of 12 months), when combined with the aggregate amount of all Pro Rata Repurchases (for this purpose, including only that portion of the aggregate purchase price of such Pro Rata Repurchase which is in excess of the Fair Market Value of the Common Stock repurchased as determined on the applicable expiration date (including all extensions thereof) of any tender offer or exchange offer which is a Pro Rata Repurchase, or the date of purchase with respect to any other Pro Rata Repurchase which is not a tender offer or exchange offer made during such period), exceeds nine and one-half percent (9 1/2%) the aggregate Fair Market Value of all shares of Common Stock outstanding on the day before the ex-dividend date with respect to such Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, and/or (ii) of any shares of capital stock of the Company (other than shares of Common Stock), other securities of the Company (other than securities of the type referred to in paragraph (B) or (C) of this Section 9), evidences of indebtedness of the Company or any other person or any other property (including shares of any subsidiary of the Company) or any combination thereof. The Fair Market Value of an Extraordinary Distribution for purposes of paragraph (D) of this Section 9 shall be equal to the sum of the Fair Market Value of such Extraordinary Distribution plus the amount of any cash dividends (other than regularly scheduled quarterly dividends not exceeding 120% of the aggregate quarterly dividends for the preceding period of 12 months) which are not Extraordinary Distributions made during such 12-month period and not previously included in the calculation of an adjustment pursuant to paragraph (D) of this Section 9.

"Fair Market Value" shall mean, as to shares of Common Stock or any other class of capital stock or securities of the Company or any other issuer which are publicly traded, the average of the Current Market Prices of such shares or securities for each day of the Adjustment Period.

"Non-Dilutive Amount" in respect of an issuance, sale or exchange by the Company of any right or warrant to purchase or acquire shares of Common Stock (including any security convertible into or exchangeable for shares of Common Stock) shall mean the remainder of (i) the product of the Fair Market Value of a share of Common Stock on the day preceding the first public announcement of such issuance, sale or exchange multiplied by the maximum number of shares of Common Stock which could be acquired on such date upon the exercise in full of such rights and warrants (including upon the conversion or exchange of all such convertible or exchangeable securities), whether or not exercisable (or convertible or exchangeable) at such date, minus (ii) the aggregate amount payable pursuant to such right or warrant to purchase or acquire such maximum number of shares of Common Stock; provided, however, that in no event shall the Non-Dilutive Amount be less than zero. For

purposes of the foregoing sentence, in the case of a security convertible into or exchangeable for shares of Common Stock, the amount payable pursuant to a right or warrant to purchase or acquire shares of Common Stock shall be the Fair Market Value of such security on the date of the issuance, sale or exchange of such security by the Company.

"Pro Rata Repurchase" shall mean any purchase of shares of Common Stock by the Company or any subsidiary thereof, whether for cash, shares of capital stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other person or any other property (including shares of a subsidiary of the Company), or any combination thereof, effected while any of the shares of Series F Preferred Stock are outstanding, pursuant to any tender offer or exchange offer subject to Section 13(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision of law, or pursuant to any other offer available to substantially all holders of Common Stock; provided, however, that no purchase of shares by the Company, or any subsidiary thereof made in open market transactions shall be deemed a Pro Rata Repurchase. For purposes of this paragraph 9(G), shares shall be deemed to have been purchased by the Company or any subsidiary thereof "in open market transactions" if they have been purchased substantially in accordance with the requirements of Rule 10b-18 as in effect under the Exchange Act, on the date shares of Series F Preferred Stock are initially issued by the Company or on such other terms and conditions as the Board of Directors of the Company or a committee thereof shall have determined are reasonably designed to prevent such purchases from having a material effect on the trading market for the Common Stock.

Whenever an adjustment to the Conversion Price and the related voting rights of the Series F Preferred Stock is required pursuant to this Resolution, the Company shall forthwith place on file with the transfer agent for the Common Stock and the Series F Preferred Stock, and with the Secretary of the Company, a statement signed by two officers of the Company stating the adjusted Conversion Price determined as provided herein and the resulting conversion ratio, and the voting rights (as appropriately adjusted), of the Series F Preferred Stock. Such statement shall set forth in reasonable detail such facts as shall be necessary to show the reason and the manner of computing such adjustment, including any determination of Fair Market Value involved in such computation. Promptly after each adjustment to the Conversion Price and the related voting rights of the Series F Preferred Stock, the Company shall mail a notice thereof and of the then prevailing conversion ratio to each holder of shares of the Series F Preferred Stock.

Section 10. Ranking; Attributable Capital and Adequacy of Surplus; Retirement of Shares.

(A) The Series F Preferred Stock shall rank senior to the Common Stock and to the Series D Junior Participating Preferred Stock, par value $1.00 per share, as to the payment of dividends and the distribution of assets on liquidation, dissolution and winding up of the Company, on a parity with the Company's Series B ESOP Convertible Preferred Stock, par value $1.00 per share, the Company's Series C Variable Rate Cumulative Preferred Stock, par value $1.00 per share and the Company's Series E Variable Rate Cumulative Preferred Stock, par value $1.00 per share, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up, and, unless otherwise provided in the Restated Certificate of Incorporation of the Company, as the same may be amended, or a Certificate of Designations relating to a subsequent series of Preferred Stock, par value $1.00 per share, of the Company, the Series F Preferred Stock shall rank junior to all series of the Company's Preferred Stock, par value $1.00 per share, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up.

(B) In addition to any vote of stockholders required by law, the vote of the holders of a majority of the outstanding shares of Series F Preferred Stock shall be required to increase the par value of the Common Stock or otherwise increase the capital of the Company allocable to the Common Stock for the purpose of the Delaware General Corporation Law (the "DGCL") if, as a result thereof, the surplus of the Company for purposes of the DGCL would be less than the amount of Preferred Dividends that would accrue on the then outstanding shares of Series F Preferred Stock during the following three years.

(C) Any shares of Series F Preferred Stock acquired by the Company by reason of the conversion or redemption of such shares as provided by this Resolution, or otherwise so acquired, shall be retired as shares of Series F Preferred Stock and restored to the status of authorized but unissued shares of Preferred Stock, par value $1.00 per share, of the Company, undesignated as to series, and may thereafter be reissued as part of a new series of such Preferred Stock as permitted by law.

Section 11. Miscellaneous.

(A) All notices referred to herein shall be in writing, and all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three (3) business days after the mailing thereof if sent by registered mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Resolution) with postage prepaid, addressed: (i) if to the Company, to its office at 2000 Westchester Avenue, White Plains, New York 10650 (Attention: Secretary) or to the transfer agent for the Series F Preferred Stock, or other agent of the Company designated as permitted by this Resolution or (ii) if to any holder of the Series F Preferred Stock or Common Stock, as the case may be, to such holder at the address of such holder as listed in the stock record books of the Company (which may include the records of any transfer agent for the Series F Preferred Stock or Common Stock, as the case may be) or (iii) to such other address as the Company or any such holder, as the case may be, shall have designated by notice similarly given.

(B) The term "Common Stock" as used in this Resolution means the Company's Common Stock, par value $6.25 per share, as the same exists at the date of filing of a Certificate of Designations relating to Series F Preferred Stock or any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that, at any time as a result of an adjustment made pursuant to Section 9 of this Resolution, the holder of any share of the Series F Preferred Stock upon thereafter surrendering such shares for conversion, shall become entitled to receive any shares or other securities of the Company other than shares of Common Stock, the Conversion Price in respect of such other shares or securities so receivable upon conversion of shares of Series F Preferred Stock shall thereafter be adjusted, and shall be subject to further adjustment from time to time, in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in Section 9 hereof, and the provisions of Sections 1 through 8, 10 and 11 of this Resolution with respect to the Common Stock shall apply on like or similar terms to any such other shares or securities.

(C) The Company shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series F Preferred Stock or shares of Common Stock or other securities issued on account of Series F Preferred Stock pursuant hereto or certificates representing such shares or securities. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Series F Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series F Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person with respect to any such shares or securities other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid or is not payable.

(D) In the event that a holder of shares of Series F Preferred Stock shall not by written notice designate the name in which shares of Common Stock to be issued upon conversion of such shares should be registered or to whom payment upon redemption of shares of Series F Preferred Stock should be made or the address to which the certificate or certificates representing such shares, or such payment, should be sent, the Company shall be entitled to register such shares, and make such payment, in the name of the holder of such Series F Preferred Stock as shown on the records of the Company and to send the certificate or certificates representing such shares, or such payment, to the address of such holder shown on the records of the Company.

(E) Unless otherwise provided in the Restated Certificate of Incorporation, as the same may be amended, of the Company, all payments in the form of dividends, distributions on voluntary or involuntary dissolution, liquidation or winding-up or otherwise made upon the shares of Series F Preferred Stock and any other stock ranking on a parity with the Series F Preferred Stock with respect to such dividend or distribution shall be pro rata, so that amounts paid per share on the Series F Preferred Stock and such other stock shall in all cases bear to each other the same ratio that the required dividends, distributions or payments, as the case may be, then payable per share on the shares of the Series F Preferred Stock and such other stock bear to each other.

(F) The Company may appoint, and from time to time discharge and change, a transfer agent for the Series F Preferred Stock. Upon any such appointment or discharge of a transfer agent, the Company shall send notice thereof by first-class mail, postage prepaid, to each holder of record of Series F Preferred Stock.

Market Auction Preferred Shares

Section 1. Designation; Amount and Series.

The Preferred Stock authorized hereby consists of 1,200 shares (each share a series) designated as "Market Auction Preferred Shares" (referred to as the "Auction Preferred", the "Preferred Stock" or the "Remarketing Preferred") issuable in the following groups of series (each group a "Series"): 300 shares designated "Market Auction Preferred Shares, Series G-1 through G-300" (the "Series G Preferred Stock"), 300 shares designated "Market Auction Preferred Shares, Series H-1 through H-300" (the "Series H Preferred Stock"), 300 shares designated "Market Auction Preferred Shares, Series I-1 through I-300" (the "Series I Preferred Stock") and 300 shares designated "Market Auction Preferred Shares, Series J-1 through J-300" (the "Series J Preferred Stock"). Except as expressly provided herein, each share of each separate Series of Auction Preferred shall be identical and equal in all aspects to every other share of such Series, and the shares of all of the Series shall be identical and equal in all respects.

Section 2. Definitions.

Any references to Sections or subsections that are made in this part of Article IV(B) shall be to Sections or subsections contained in this part of Article IV(B). Unless the context or use indicates another or different meaning or intent, the following terms shall have the following meanings when used in this part of Article IV(B), whether used in the singular or plural:

"Act" means the Securities Act of 1933, as amended.

"Additional Payments" means an amount equal to the product of (i) the Default Rate on the date on which such Failure to Deposit occurred (or, if such Failure to Deposit relates to a failure to pay dividends other

than at the end of a Dividend Period, the Default Rate computed using the Percentage applicable to the rating category below "baa3" or "BBB-" as of the Business Day immediately preceding the Auction Date or the date of the immediately preceding Remarketing for such shares), times (ii) a fraction, the numerator of which will be the number of days during which such failure existed and was not cured as described in Section 3(i)(B) (including the day such failure occurs and excluding the day such failure is cured) and the denominator of which will be 360, times (iii) the full amount of the dividends required to be paid on the Dividend Payment Date with respect to which such failure occurred.

"Affiliate" means any Person controlled by, in control of, or under common control with, the Corporation.

"Applicable 'AA' Composite Commercial Paper Rate", on any date, means, in the case of any Dividend Period of (1) 1 to 48 days, the interest equivalent of the 30-day rate, (2) 49 days or more but less than 70 days, the interest equivalent of the 60-day rate, (3) 70 days or more but less than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates, (4) 85 days or more but less than 120 days, the interest equivalent of the 90-day rate, (5) 120 days or more but less than 148 days, the arithmetic average of the interest equivalent of the 90-day and 180-day rates, (6) 148 days or more but less than 184 days, the interest equivalent of the 180-day rate, in each case, on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P or "Aa" by Moody's, or the equivalent of such rating by another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date. In the event that the Federal Reserve Bank of New York does not make available any of the foregoing rates, then such rates shall be the 30-day, 60-day, 90-day or 180-day rate or arithmetic average of such rates, as the case may be, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers to the Auction Agent or the applicable Remarketing Agent as of the close of business on the Business Day next preceding such date. If any Commercial Paper Dealer does not quote a rate required to determine the Applicable "AA" Composite Commercial Paper Rate, the Applicable "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer (if any) and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the Corporation to provide such rate or rates or, if the Corporation does not select any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer (if any). For purposes of this definition, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security.

"Applicable Determining Rate" means (i) for any Dividend Period from 1 to 48 days, Standard Dividend Period or Short-Dividend Period of 183 days or less, the Applicable "AA" Composite Commercial Paper Rate, (ii) for any Short Dividend Period of 184 to 364 days, the Applicable Treasury Bill Rate and (iii) for any Long Dividend Period, the Applicable Treasury Note Rate.

"Applicable Rate" means the dividend rate payable on a share of Preferred Stock for any Dividend Period subsequent to the Initial Dividend Period for such share established pursuant to Section 3 below.

"Applicable Treasury Bill Rate" for any Short Dividend Period in excess of 183 days and "Applicable Treasury Note Rate" for any Long Dividend Period, on any date, means the interest equivalent of the rate for direct obligations of the United States Treasury having an original maturity which is equal to, or next lower than, the length of such Short Dividend Period or Long Dividend Period, as the case may be, as published weekly by the Federal Reserve Board in "Federal Reserve Statistical Release H.15(519)NSelected Interest Rates", or any successor publication by the Federal Reserve Board, within 5 Business Days preceding such date. In the event that the Federal Reserve Board does not publish such rate, or if such release is not available, the Applicable Treasury Bill Rate or Applicable Treasury Note Rate will be the arithmetic mean of the secondary market bid rates as of approximately 3:30 P.M., New York City time, on the Business Day next preceding such date of the U.S. Government Securities Dealers furnished to the Auction Agent or the applicable Remarketing Agent for the issue of direct obligations of the United States Treasury, in an aggregate principal amount of at least $250,000 with a remaining maturity equal to, or next lower than, the length of such Short Dividend Period or Long Dividend Period, as the case may be. If any U.S. Government Securities Dealer does not quote a rate required to determine the Applicable Treasury Bill Rate or the Applicable Treasury Note Rate, the Applicable Treasury Bill Rate or Applicable Treasury Note Rate shall be determined on the basis of the quotation or quotations furnished by the remaining U.S. Government Securities Dealer (if any) or any Substitute U.S. Government Securities Dealer or Dealers selected by the Corporation to provide such rate or rates or, if the Corporation does not select any such Substitute U.S. Government Securities Dealer, by the remaining U.S. Government Securities Dealer (if any); provided that, if the Corporation is unable to cause such quotations to be furnished to the Auction Agent or the applicable Remarketing Agent by such sources, the Corporation may cause such rates to be furnished to the Auction Agent or the applicable Remarketing Agent by such alternative source as the Corporation in good faith deems to be reliable. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis shall be equal to the quotient of (A) the discount rate divided by (B) the difference between 1.00 and the discount rate.

"Articles of Incorporation" means the Restated Certificate of Incorporation, as amended, of the Corporation.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means The Bank of New York, unless or until another bank or trust company has been appointed as such by the Corporation.

"Auction Agent Agreement" has the meaning set forth in Section 8 below.

"Auction Date" means, for any Series of Auction Preferred, the first Business Day preceding the first day of each Dividend Period for such Series other than the Initial Dividend Period for such Series.

"Auction Method" means a method of determining Dividend Periods and dividend rates for the Auction Preferred of a Series pursuant to the Auction Procedures.

"Auction Preferred" means the Auction Preferred, including the Converted Remarketing Preferred, being auctioned pursuant to the Auction Procedures.

"Auction Procedures" means the procedures for conducting Auctions set forth in Section 7 below.

"Board of Directors" means the Board of Directors of the Corporation or any duly authorized committee of the Board of Directors acting on behalf thereof.

"Broker-Dealer" means any broker-dealer, or other entity permitted by law to perform the functions required of a Broker-Dealer in these Auction Procedures, that has been selected by the Corporation and has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

"Business Day" means a day on which the New York Stock Exchange is open for trading and which is not a day on which banks in The City of New York are authorized or obliged by law to close.

"Certificate of Designations" or "Certificate" means the Certificate of Designations, Preferences and Rights of Market Auction Preferred Shares of the Corporation dated and filed with the Delaware Secretary of State on December 22, 1992.

"Chief Financial Officer" has the meaning set forth in Section 3(g)(ii) below.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Dealers" means Morgan Stanley and First Boston or, in lieu thereof, their respective affiliates or successors.

"Converted Auction Preferred" means shares of Auction Preferred which, by reason of an election by the Method Selection Agent of a different Dividend Determination Method, will become Remarketing Preferred at the end of the then-current Dividend Period applicable thereto.

"Converted Remarketing Preferred" means shares of Remarketing Preferred which, by reason of an election by the Method Selection Agent of a different Dividend Determination Method, will become Auction Preferred at the end of the then-current Dividend Period applicable thereto.

"Corporation" means Texaco Inc., a Delaware corporation, or its successor.

"Date of Original Issue", with respect to any share of Preferred Stock, means the date on which the Corporation originally issued such share of Preferred Stock.

"Default Period" has the meaning set forth in Section 6(b)(i) below.

"Default Rate" means the higher of (A) the Maximum Applicable Rate obtained by multiplying the Applicable Determining Rate, determined as of the Business Day next preceding the date of the Failure to Deposit that, pursuant to Section 3(i), caused the application of such Default Rate, by the Percentage for the rating category below "baa3" or "BBB-", and (B) (i) if the Corporation has failed timely to pay dividends, the dividend rate in effect for the Dividend Period in respect of which such Failure to Deposit occurred, or (ii) if the Corporation has failed timely to pay the redemption price (including accumulated and unpaid dividends) of shares of any Series of Preferred Stock called for redemption, the dividend rate in effect on the date such redemption price was to have been paid. The Percentage used to determine the Default Rate for any shares of Preferred Stock shall be the Percentage for the rating category below "baa3" or "BBB-" (i) in effect on the immediately preceding Auction Date or the date of the immediately preceding Remarketing, in the case of a Default Rate that applies to the portion of a Dividend Period occurring after a failure to pay dividends and (ii) in effect on the date of determination, in all other cases.

"Depository Agreement" means each agreement among the Corporation, the Remarketing Depository and a Remarketing Agent.

"Dividend Determination Method" or "Method" shall mean either the Auction Method or the Remarketing Method.

"Dividend Payment Date" has the meaning set forth in Section 3(b)(iii) below.

"Dividend Period" has the meaning set forth in Section 3(b)(v) below.

"Dividend Quarter" has the meaning set forth in Section 3(b)(iii) below.

"Dividends-Received Deduction" has the meaning set forth in Section 3(f)(v) below.

"Existing Holder" means a Person who has signed a Master Purchaser's Letter and is listed as the beneficial owner of any shares of Auction Preferred in the records of the Auction Agent.

"Failure to Deposit" means the failure by the Corporation to pay to the Paying Agent by 11:00 A.M., New York City Time, in immediately available funds, (i) on a Dividend Payment Date, the full amount of any dividend (whether or not earned or declared) to be paid on such Dividend Payment Date on any shares of Preferred Stock or (ii) on any redemption date, the full redemption price (including accumulated and unpaid dividends), to be paid on such redemption date for any shares of Preferred Stock.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System.

"First Boston" means The First Boston Corporation.

"Holder" means an Existing Holder or any beneficial owner of Preferred Stock acquired pursuant to a Remarketing.

"Initial Auction Date" means the Business Day immediately preceding the first day of a Dividend Period for Auction Preferred.

"Initial Dividend Rate" has the meaning set forth in Section 3(g)(i) below.

"Initial Dividend Period" means the periods commencing on the Date of Original Issue and ending on the respective days immediately preceding the Initial Dividend Payment Dates for each Series of Preferred Stock.

"Initial Dividend Payment Date" has the meaning set forth in Section 3(b) below.

"Long Dividend Period" has the meaning set forth in Section 3(b)(v) below.

"Marketing Conditions" means the following factors: (i) short-term and long-term market rates and indices of such short-term and long-term rates, (ii) market supply and demand for short-term and long-term securities, (iii) yield curves for short-term and long-term securities comparable to the Preferred Stock, (iv) industry and financial conditions which may affect the Preferred Stock, (v) the number of shares of Preferred Stock to be sold pursuant to an Auction or a Remarketing, as the case may be, (vi) the number of potential purchasers of Preferred Stock, (vii) the Dividend Periods and dividend rates at which current and potential holders would remain or become holders, (viii) current tax laws and administrative interpretations with respect thereto and (ix) the Corporation's current and projected funding requirements based on its asset and liability position, tax position and current financing objectives. If Marketing Conditions are being assessed by the Chief Financial Officer, such officer's evaluation of the factors described in clauses (vi) and (vii) above may be based on discussions with one or more Broker-Dealers or Remarketing Agents.

If Marketing Conditions are being assessed by the Term Selection Agent or the Method Selection Agent, such agent's evaluation of the factor described in clause (ix) above may be based on discussions with representatives of the Corporation.

"Maximum Applicable Rate", as of any date, means the rate obtained by multiplying the Applicable Determining Rate then in effect for a Dividend Period by the Percentage (as it may be adjusted from time to time based on certain factors by the Chief Financial Officer in accordance with the provisions hereof) determined as set forth below based on the lower of the credit ratings assigned to the Preferred Stock by Moody's and S&P.

Credit Rating		
Moody's	S & P	Percentage
"aa3" or Above	AA- or Above	150%
"a3" to "a1"	A- to A+	200%
"baa3" to "baa1"	BBB- to BBB+	225%
Below "baa3"	Below BBB	275%

The Corporation will take all reasonable action necessary to enable Moody's and S&P to provide ratings for the Preferred Stock. If either Moody's or S&P does not make such rating available or neither Moody's nor S&P shall make such a rating available, the Corporation will designate a rating agency or rating agencies as a substitute rating agency or substitute rating agencies, as the case may be, subject to the approval of Morgan Stanley and First Boston, such approval not to be unreasonably withheld, and the Corporation will take all reasonable action to enable such rating agency or rating agencies to provide a rating or ratings for each Series of Preferred Stock. If either Moody's or S&P shall change its rating categories for preferred stock, or if one or more substitute rating agencies are designated, then the determination set forth above will be made based upon the substantially equivalent new rating categories for preferred stock of such rating agency or substitute rating agency.

"Memorandum" means the Private Placement Memorandum dated December 16, 1992 relating to the Corporation and the placement of the shares of Preferred Stock.

"Method Selection Agent" means any entity appointed by the Corporation to act on its behalf in selecting Dividend Determination Methods

for a Series of Preferred Stock, provided that if the Corporation shall appoint more than one entity to so act with respect to a Series, "Method Selection Agent" shall mean, unless the context otherwise requires, all entities so appointed.

"Method Selection Agreement" means an agreement between the Corporation and the Method Selection Agent pursuant to which the Method Selection Agent agrees to determine the Method applicable to a Series of Preferred Stock.

"Minimum Holding Period" has the meaning set forth in Section 3(f)(v) below.

"Moody's" means Moody's Investors Service, Inc., or its successor, so long as such agency (or successor) is in the business of rating securities of the type of the Preferred Stock and, if such agency is not in such business, then a Substitute Rating Agency.

"Morgan Stanley" means Morgan Stanley & Co. Incorporated.

"Normal Dividend Payment Date" has the meaning set forth in Section 3(b)(ii) below.

"Notice of Change in Dividend Period" has the meaning set forth in Section 3(d)(ii) below.

"Notice of Method Revocation" has the meaning set forth in Section 3(c)(ii) below.

"Notice of Method Selection" has the meaning set forth in Section 3(c)(i) below.

"Notice of Percentage Increase" has the meaning set forth in Section 3(h)(i) below.

"Notice of Removal" has the meaning set forth in Section 3(c)(iii) below.

"Notice of Revocation" has the meaning set forth in Section 3(d)(ii) below.

"Outstanding" means, as of any date, shares of Preferred Stock theretofore issued except, without duplication, (i) any shares of Preferred Stock theretofore cancelled, delivered to the Corporation for cancellation or redeemed and (ii) as of any Auction Date or Remarketing Date, any shares of Preferred Stock subject to redemption on the next following Business Day.

"Participant" means the member of the Securities Depository that will act on behalf of an Existing Holder or a Potential Holder, in the case of Auction Preferred, or the beneficial owner, in the case of Remarketing Preferred, and that is identified as such in such Holder's or Potential Holder's Master Purchaser's Letter.

"Paying Agent" means the Auction Agent unless another bank or trust company has been appointed to act as the paying agent for the shares of Preferred Stock by resolution of the Board of Directors.

"Percentage" has the meaning set forth in Section 3(h)(i) below.

"Person" means and includes an individual, a partnership, a corporation, a trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

"Purchaser's Letter" means a Master Purchaser's Letter substantially in the form of Appendix E to the Memorandum delivered to the initial purchasers of the Preferred Stock which each prospective purchaser of Preferred Stock will be required to sign as a condition to purchasing Preferred Stock or participating in an Auction or Remarketing.

"Redemption Agent" means the Auction Agent unless another bank or trust company has been appointed to act as the redemption agent for the shares of Preferred Stock by resolution of the Board of Directors.

"Remarketing" means the implementation of Remarketing Procedures.

"Remarketing Agent" means, at any time, the entity or entities appointed by the Corporation to act on its behalf in establishing dividend rates and Dividend Periods for Remarketing Preferred and to act on behalf of holders of Remarketing Preferred in remarketing such Remarketing Preferred as provided in the Remarketing Procedures.

"Remarketing Depository" means The Bank of New York, and its successors or any other depository selected by the Corporation which agrees to follow the procedures required to be followed by such depository in connection with shares of Remarketing Preferred with a Dividend Period of less than 7 days.

"Remarketing Method" means a method of determining Dividend Periods and dividend rates for the Preferred Stock.

"Remarketing Preferred" means the Preferred Stock, including the Converted Auction Preferred for which the dividend rate and Dividend Period are to be determined pursuant to the Remarketing Method.

"Remarketing Procedures" means the procedures for remarketing shares of Remarketing Preferred as set forth in Section 9.

"Securities Depository" means The Depository Trust Company or any other securities depository selected by the Corporation that agrees to follow the procedures required to be followed by such securities depository in connection with the Preferred Stock.

"Series" means any of the Series G, Series H, Series I or Series J of the Preferred Stock authorized by this Certificate.

"Short Dividend Period" has the meaning set forth in Section 3(b)(v) below.

"Standard Dividend Period" has the meaning set forth in Section 3(b)(v) below.

"Standard & Poor's" or "S&P" means Standard & Poor's Corporation, or its successor, so long as such agency (or successor) is in the business of rating securities of the type of the Preferred Stock and, if such agency is not in such business, then a Substitute Rating Agency.

"Stock Books" means the stock transfer books of the Corporation maintained by the Paying Agent.

"Substitute Commercial Paper Dealer" means Goldman, Sachs & Co., Shearson Lehman Brothers Inc. or Merrill Lynch, Pierce, Fenner & Smith Incorporated, or their respective affiliates or successors or, if none of such firms furnishes commercial paper quotations, a leading dealer in the commercial paper market selected by the Corporation in good faith.

"Substitute Rating Agency" means a nationally recognized statistical rating organization (as that term is used in the rules and regulations of the Securities Exchange Act of 1934) selected by the Corporation, subject to approval by Morgan Stanley and First Boston, which approval is not to be unreasonably withheld.

"Substitute U.S. Government Securities Dealers" means Goldman, Sachs & Co., Shearson Lehman Brothers Inc. or Merrill Lynch, Pierce, Fenner & Smith Incorporated, or their respective affiliates or successors or, if none of such firms provides quotes in U.S. government securities, a leading dealer in the government securities market selected by the Corporation in good faith.

"Tender Agent" means, at any time, the bank or the organization (initially The Bank of New York) appointed by the Corporation to perform the duties of Tender Agent as provided in the Remarketing Procedures.

"Term Selection Agent" means any entity appointed by the Corporation to act on its behalf in establishing the length of any Dividend Period other than the Standard Dividend Period, the Dividend Payment Dates for any Short Dividend Period and, in the case of any Long Dividend Period, additional redemption provisions, if any, for a Series of Auction Preferred, provided that if the Corporation shall appoint more than one entity to so act with respect to a Series, "Term Selection Agent" shall mean, unless the context otherwise requires, all entities so appointed.

"U.S. Government Securities Dealers" means Morgan Stanley and First Boston or, in lieu thereof, their respective affiliates or successors.

Section 3. Dividends.

(a) Holders of shares of Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cumulative cash dividends at the Applicable Rate per annum, determined as set forth in Section 3(f) below, and no more, payable on the respective dates set forth below.

(b)(i) Dividends on the shares of Preferred Stock of each Series shall accumulate (whether or not declared) from the Date of Original Issue.

(ii) Dividends on each Series of Preferred Stock shall be payable on the Initial Dividend Payment Date for such Series. After the Initial Dividend Periods, dividends on any shares of Preferred Stock with (a) a Dividend Period of 1 to 48 days (which, in the case of Auction Preferred, shall be a period of days divisible by 7) will be payable on the day following the last day of such Dividend Period, (b) a Standard Dividend Period will be payable on the day following the last day of such Standard Dividend Period (which last day of such Standard Dividend Period will normally be each seventh Wednesday following the preceding Dividend Payment Date for such Series), (c) a Short Dividend Period, on the day following the last day of such Short Dividend Period and on such other Dividend Payment Dates as established at the time such Short Dividend Period is determined and (d) a Long Dividend Period, on the day following the last day of such Long Dividend Period and on the March 31, June 30, September 30 and December 31 of each year during such dividend period. Each day on which dividends on shares of Preferred Stock of each Series would be payable as determined as set forth in this clause (ii) but for adjustments set forth in Section 3(f)(v) below, other than adjustments to reflect changes in the Minimum Holding Period, is referred to herein as a "Normal Dividend Payment Date".

(iii) Each date on which dividends for each share of Preferred Stock shall be payable as set forth herein is referred to herein as a "Dividend Payment Date". If applicable, the period from the preceding Dividend Payment Date to the next Dividend Payment Date for any share of Preferred Stock with a Long Dividend Period is herein referred to as a "Dividend Quarter". Although any particular Dividend Payment Date may not occur on the originally scheduled Normal Dividend Payment Date because of the adjustments set forth in Section 3(f)(v) below, each succeeding Dividend Payment Date shall be, subject to such adjustments, the date determined as set forth in clause (ii) above as if each preceding Dividend Payment Date had occurred on

the respective originally scheduled Normal Dividend Payment Date.

(iv) Dividend Periods may be of any duration (including perpetual duration) and not less than (i) seven days in the case of Auction Preferred (other than Converted Remarketing Preferred) and (ii) one day in the case of Remarketing Preferred (other than Converted Auction Preferred). The duration of each subsequent Dividend Period following the Initial Dividend Period for each Series and the Applicable Rate for such subsequent Dividend Period will be determined by either the Auction Method or the Remarketing Method.

(v) The Initial Dividend Payment Date for the Initial Dividend Period for Series G Preferred Stock shall be February 11, 1993, for Series H Preferred Stock shall be February 18, 1993, for Series I Preferred Stock shall be February 25, 1993 and for Series J Preferred Stock shall be March 4, 1993. After the Initial Dividend Period for each Series of Preferred Stock, each subsequent Dividend Period for any shares of Preferred Stock shall (except for the adjustments for non-Business Days described in Section 3(f)(v) below) be 49 days (each such 49-day period, subject to any adjustment as a result of a change in law adjusting the Minimum Holding Period as described in Section 3(f)(v) below, being referred to herein as a "Standard Dividend Period"), unless as provided in clause (d) below, the Term Selection Agent or the applicable Remarketing Agent, as the case may be, specifies that any such subsequent Dividend Period for a particular share of Preferred Stock shall be (A) a Dividend Period of 1 to 48 days (which in the case of Auction Preferred, shall be a period of days divisible by 7), (B) a Dividend Period of 50 to 364 days and consisting of a whole number of weeks (a "Short Dividend Period") or (C) a Dividend Period of 365 days or longer and consisting of a whole number of weeks (a "Long Dividend Period"). Each such Dividend Period of 1 to 48 days, Standard Dividend Period, Short Dividend Period and Long Dividend Period (together with (i) any Initial Dividend Periods and (ii) any period commencing on a redemption date on which there is a Failure to Deposit and ending on the date the redemption price for such shares is paid to the Paying Agent) being referred to herein as a "Dividend Period").

(c)(i) Subject to certain limitations set forth in clause (v) below, either Dividend Determination Method may be selected by the Method Selection Agent for a Series of Preferred Stock for any subsequent Dividend Period with respect to all shares of such Series, provided that such Method Selection Agent determines at the time of such selection that a change in the Dividend Determination Method will be the most favorable financing alternative for the Corporation based upon the then-current Marketing Conditions. If more than one entity is serving as Method Selection Agent for a Series, such entities shall act in concert in performing their duties, provided that notices referred to herein may be given by one entity on behalf of all such entities. The Method Selection Agent for any Series of Preferred Stock will make such selection in a notice (a "Notice of Method Selection") sent by such Method Selection Agent to the Corporation, the Term Selection Agent, the Auction Agent, the Securities Depository, the Remarketing Depository, the Tender Agent and any applicable Remarketing Agent by telephone (with confirmation in writing), and to any other record holders of the shares of Preferred Stock of such Series by first-class mail, postage prepaid, not less then seven Business Days prior to the first day of such subsequent Dividend Period. Each Notice of Method Selection will state the Method selected by the Method Selection Agent. If the Method Selection Agent for a Series which is then a Series of Remarketing Preferred selects the Auction Method for any subsequent Dividend Period, the Remarketing Agent for such Series will establish Dividend Periods and Applicable Rates for shares of such Series until the Initial Auction Date in a manner that will best promote an orderly transition to the Auction Method. Any Dividend Determination Method so selected by the Method Selection Agent for a Series shall continue in effect for such Series until the Method Selection Agent selects the other Method in the aforesaid manner. Until a Method Selection Agent for any Series has been appointed, the Dividend Determination Method will be the Auction Method.

(ii) A Notice of Method Selection may be revoked (a "Notice of Method Revocation") by the Method Selection Agent on or prior to 10:00 A.M. on the second Business Day preceding the first day of the sub-sequent Dividend Period by giving a Notice of Method Revocation to the Corporation, the Term Selection Agent, the Securities Depository, the Remarketing Depository, the Auction Agent, the Tender Agent, any applicable Remarketing Agent and any other record holders of the shares of Preferred Stock of such Series.

(iii) Any Notice of Method Selection with respect to any subsequent Dividend Period for any Series of Preferred Stock shall be deemed to have been withdrawn if on or prior to the second Business Day preceding the first day of such subsequent Dividend Period the Corporation shall have removed the Method Selection Agent for such Series, provided that the Corporation shall have given a notice (a "Notice of Removal") to the Term Selection Agent, the Securities Depository, the Remarketing Depository, the Auction Agent, the Tender Agent, any applicable Remarketing Agent and any other record holders of shares of Preferred Stock of such Series no later than 3:00 P.M., New York City time, on such second Business Day. If more than one entity has been appointed and is acting as Method Selection Agent for that Series, such Notice of Method Selection shall be deemed to have been withdrawn only if the Corporation shall have removed all such entities; and the removal at any time by the Corporation of one or more but not all such entities shall not effect a deemed withdrawal of a Notice of Method Selection and in any such event no Notice of Removal need be given. If the Method Selection Agent for any Series of Preferred Stock resigns or is removed (or, in either case, if more than one entity has been appointed and is acting as Method Selection Agent for that Series then all such entities), the Dividend Determination Method applicable to such Series in effect at the time of such resignation or removal will continue in effect until the Corporation appoints a successor Method Selection Agent for such Series and such Method Selection Agent sends a Notice of Method Selection. If, as a result of the resignation or removal of the Method Selection Agent, the Dividend Determination Method for any Series will continue to be the Auction Method, then the duration of the next

succeeding Dividend Period for such Series will be the Standard Dividend Period.

(iv) Any Method for a Series of Preferred Stock selected by the Method Selection Agent for such Series pursuant to a Notice of Method Selection (except a Notice of Method Selection that is revoked or deemed to have been withdrawn) shall be conclusive and binding on the Corporation and the holders of Preferred Stock of such Series. If the Notice of Method Selection is not revoked or deemed to have been withdrawn, any Method so selected by the Method Selection Agent for a Series will continue in effect for that Series until such Method Selection Agent or any successor selects the other Method in the aforesaid manner. No defect in the Notice of Method Selection, the Notice of Method Revocation or the Notice of Removal of the Method Selection Agent or in the mailing thereof shall affect the validity of any change in the Dividend Determination Method or any withdrawal, revocation or removal.

(v) Notwithstanding the foregoing, the Method Selection Agent shall not be entitled to change the Dividend Determination Method then applicable to a Series if (i) at the time of an election that the Remarketing Method apply to a Series, the Corporation has not appointed (and given notice or taken such other action as may be necessary for the timely effectiveness of such appointment) a Remarketing Agent, a Tender Agent, a Securities Depository and a Remarketing Depository for such Series, (ii) at the time of an election that the Auction Method apply to a Series, the Corporation has not appointed (and given notice or taken such other action as aforesaid) an Auction Agent, a Securities Depository and at least one Broker-Dealer for such Series, or such election would result in more than one Dividend Period for the shares of Preferred Stock of such Series or (iii) at the time of any such election, a Failure to Deposit has occurred and is continuing. Once the Method Selection Agent has selected a Dividend Determination Method for a Series in the aforesaid manner, such selection shall become effective on the last day of the Dividend Period(s) then applicable to shares of Preferred Stock of such Series notwithstanding any Failure to Deposit for such Series which may occur after the delivery of the Notice of Method Selection by such Method Selection Agent, the failure to remarket tendered shares of Remarketing Preferred of such Series, in the case of the selection of the Remarketing Method, or the lack of Sufficient Clearing Bids in the Auction for such Series, in the case of the selection of the Auction Method.

(d)(i) With respect to shares of Auction Preferred, each successive Dividend Period shall commence on the Dividend Payment Date for the preceding Dividend Period for such Series and shall end (A) in the case of a Dividend Period of 7 to 48 days or a Standard Dividend Period, on the day preceding the next Dividend Payment Date and (B) in the case of a Short Dividend Period or a Long Dividend Period, on the last day of the Short Dividend Period or Long Dividend Period, as the case may be, specified by the Term Selection Agent, in the related Notice of Change in Dividend Period.

(ii) The Term Selection Agent will give telephonic and written notice, not less than 10 and not more than 30 days prior to an Auction Date and based on the then-current Marketing Conditions, to the Corporation, the Auction Agent, the Method Selection Agent, the Securities Depository and any other record holders of a Series of Auction Preferred if it determines that the next succeeding Dividend Period for such Series will be a Dividend Period of 7 to 48 days, a Short Dividend Period or a Long Dividend Period (any such notice, a "Notice of Change in Dividend Period"); provided, that if the then-current Dividend Period is less than 10 days, the Term Selection Agent will give such Notice of Change in Dividend Period no less than 5 days prior to an Auction Date. Each such Notice of Change in Dividend Period shall be in substantially the form of Exhibit D to the Auction Agent Agreement and shall specify the following terms, (A) the next succeeding Dividend Period for such Series as a Dividend Period of 7 to 48 days, a Short Dividend Period or a Long Dividend Period; provided that a Dividend Period of 7 to 48 days shall only be established so long as corporate holders of such Series of Preferred Stock shall not lose entitlement to the Dividends-Received Deduction as a result of the length of such Dividend Period, (B) the term thereof, (C) in the case of a Short Dividend Period, the Dividend Payment Dates with respect thereto and (D) in the case of a Long Dividend Period, additional redemption provisions or restrictions on redemption, if any, as authorized in Section 4(b)(ii) hereof. However, for any Auction occurring after the initial Auction, the Term Selection Agent may not give a Notice of Change in Dividend Period (and any such Notice of Change in Dividend Period shall be null and void) unless Sufficient Clearing Bids were made in the last occurring Auction for any Series and full cumulative dividends, if any, for all Series of Auction Preferred payable prior to the date of such notice have been paid in full. The Term Selection Agent may establish a Dividend Period of 7 to 48 days, a Short Dividend Period or a Long Dividend Period for any Series of Preferred Stock, if the Term Selection Agent determines that such Dividend Period and, in the case of a Long Dividend Period, additional redemption provisions or restrictions on redemption, provide the Corporation with the most favorable financing alternative based upon the then-current Marketing Conditions. A Notice of Change in Dividend Period may be revoked by the Term Selection Agent on or prior to 10:00 A.M. New York City time on the related Auction Date by telephonic and written notice (a "Notice of Revocation"), in substantially the form of Exhibit E to the Auction Agent Agreement, to the Corporation, the Auction Agent, the Method Selection Agent, the Securities Depository and any other record holders of the shares of such Series, specifying that the Term Selection Agent has determined that because of subsequent changes in such Marketing Conditions, such Dividend Period would not result in the most favorable financing alternative for the Corporation. Notices of Revocation given by the Term Selection Agent will be conclusive and binding upon the Corporation and the holders of shares of Auction Preferred and, except as set forth below in clause (iv), a Notice of Change in Dividend Period given by the Term Selection Agent will be conclusive and binding upon the Corporation and the holder of shares of Auction Preferred.

(iii) Any Notice of Change in Dividend Period with respect to any subsequent Dividend Period for any Series of Auction Preferred will be deemed to have been withdrawn if on or prior to the second Business Day preceding an Auction Date the Corporation shall have removed the Term Selection Agent, provided that the Corporation shall have given Notice of Removal to the Auction Agent, the Method Selection Agent and the Securities Depository and any other record holders of the shares of such Series, no later than 3:00 P.M., New York City time, on such second Business Day. If the Term Selection Agent resigns or is removed, the Dividend Period for each Series of Auction Preferred shall be a Standard Dividend Period until the Corporation appoints a successor Term Selection Agent for such Series and such Term Selection Agent sends a Notice of Change in Dividend Period.

(iv) If the Term Selection Agent does not give a Notice of Change in Dividend Period with respect to the next succeeding Dividend Period for any Series of Auction Preferred or has given such a Notice of Change in Dividend Period and gives a Notice of Revocation with respect thereto or such Notice of Change in Dividend Period is deemed to be withdrawn, such next succeeding Dividend Period shall be a Standard Dividend Period with respect to such Series. In addition, in the event the Term Selection Agent has given a Notice of Change in Dividend Period with respect to the next succeeding Dividend Period for a Series of Preferred Stock and such notice has not been revoked or deemed to be withdrawn, but Sufficient Clearing Bids are not made in the related Auction or such Auction is not held for any reason, such next succeeding Dividend Period for such Series will, notwithstanding such Notice of Change in Dividend Period, be a Standard Dividend Period and the Term Selection Agent may not again give a Notice of Change in Dividend Period (and any such Notice of Change in Dividend Period shall be null and void) for such Series until Sufficient Clearing Bids have been made in an Auction for such Series.

(e)(i) With respect to shares of Remarketing Preferred, the duration of each subsequent Dividend Period and the Applicable Rate for each such subsequent Dividend Period shall be established by the Remarketing Agent for such shares of Remarketing Preferred and will be conclusive and binding on the Corporation and the holders of such shares.

(ii) For each Dividend Period the applicable Remarketing Agent shall establish a dividend rate, not in excess of the Maximum Applicable Rate, which it determines shall be the lowest rate at which tendered shares of Remarketing Preferred would be remarketed at $250,000 per share. In establishing each Dividend Period and dividend rate, each Remarketing Agent will establish Dividend Periods and dividend rates which it determines will result in the most favorable financing alternative for the Corporation based on the then-current Marketing Conditions.

(iii) Each Holder will be deemed to have tendered its shares of Remarketing Preferred for sale by Remarketing on the Business Day immediately preceding the first day of each subsequent Dividend Period applicable thereto, unless it gives irrevocable notice otherwise. Consequently, a Holder will hold shares of Remarketing Preferred only for a Dividend Period and at a dividend rate accepted by that holder, except for one or more successive Dividend Periods of one day resulting from a Failure to Deposit or the failure to remarket such shares as described below. At any time, any or all shares of Remarketing Preferred of a Series may have Dividend Periods of various lengths. Depending on Marketing Conditions at the time of Remarketing, any or all shares of Remarketing Preferred of a Series may have different Applicable Rates, including those set on the same day for Dividend Periods of equal length.

(f)(i) Not later than 11:00 A.M. New York City time on the Dividend Payment Date (except as provided in Section 3(f)(v) below) for each share of Preferred Stock, the Corporation is required to deposit with the Paying Agent sufficient immediately available funds for the payment of declared dividends.

(ii) Each dividend shall be payable to the holder or holders of record of such shares of Preferred Stock as such holders' names appear on the Stock Books on the Business Day next preceding the applicable Dividend Payment Date. Subject to Section 3(i) below, dividends in arrears (including any Additional Payments) for any past Dividend Payment Date may be declared by the Board of Directors and paid at any time, without reference to any regular Dividend Payment Date, to the holder or holders of record as such holders appear on the Stock Books as of the Business Day next preceding such Dividend Payment Date. Any dividend payment made on any shares of Preferred Stock shall first be credited against the dividends accumulated with respect to the earliest Dividend Payment Date for which dividends have not been paid with respect to such shares.

(iii) So long as the shares of Preferred Stock are held of record by the nominee of the Securities Depository or the Remarketing Depository, as the case may be, dividends will be paid to the nominee of the Securities Depository or the Remarketing Depository, on each Dividend Payment Date. Dividends on shares of Preferred Stock held through the Securities Depository will be paid through the Securities Depository on each Dividend Payment Date in accordance with its normal procedures.

(iv) Dividends on any shares of Preferred Stock held by the Remarketing Depository will be paid through the Remarketing Depository on each Dividend Payment Date by wire or other transfer of immediately available funds to a Holder's account with a commercial bank in the United States so long as such Holder has provided the Remarketing Depository with the necessary information to effect such transfer. Any payments not made by wire or other transfer will be made by check to the Holder of such Preferred Stock.

(v) In the case of dividends payable with respect to a share of Preferred Stock with a Dividend Period of 7 to 48 days, a Standard Dividend Period or a Short Dividend Period, if:

(A)(x) The Securities Depository shall continue to make available to Participants the amounts due as dividends on such shares of Preferred Stock in next-day funds on the dates on which such dividends are payable and (y) a Normal Dividend Payment Date is not a Business Day, or the day next succeeding such Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day preceding such Normal Dividend Payment Date that is next succeeded by a Business Day; or

(B)(x) The Securities Depository shall make available to Participants the amounts due as dividends on such shares of Preferred Stock in immediately available funds on the dates on which such dividends are payable (and the Securities Depository shall have so advised the Auction Agent) and (y) a Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(C) In the case of dividends payable with respect to shares of Preferred Stock with a Long Dividend Period, if:

(I)(x) The Securities Depository shall continue to make available to its Participants the amounts due as dividends on such shares of Preferred Stock in next-day funds on the dates on which such dividends are payable and (y) a Normal Dividend Payment Date is not a Business Day, or the day next succeeding such Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date that is next succeeded by a Business Day; or

(II)(x) The Securities Depository shall make available to its Participants the amounts due as dividends on such shares of Preferred Stock in immediately available funds on the dates on which such dividends are payable (and the Securities Depository shall have so advised the Auction Agent) and (y) a Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(D) Notwithstanding the foregoing, in case of payment in next-day funds, if the date on which dividends on shares of Preferred Stock would be payable as determined as set forth in clauses (A), (B) and (C) above is a day that would result, due to such procedures, in the number of days between successive Auction Dates or Remarketing Dates for such shares (determined by excluding the first Auction Date or Remarketing Date, as the case may be, and including the second Auction Date and the second Remarketing Date, as the case may be), not being at least equal to the then-current minimum holding period (currently set forth in Section 246(c) of the Code) (the "Minimum Holding Period") required for corporate taxpayers to be entitled to the dividends- received deduction on preferred stock held by nonaffiliated corporations (currently set forth in Section 243(a) of the Code) (the "Dividends-Received Deduction"), then dividends on such shares shall be payable on the first Business Day following such date on which dividends would be so payable that is next succeeded by a Business Day that results in the number of days between such successive Auction Dates or Remarketing Dates, as the case may be (determined as set forth above), being at least equal to the then current Minimum Holding Period.

(E) In addition, notwithstanding the foregoing, in the event of a change in law altering the Minimum Holding Period, the period of time between Dividend Payment Dates shall automatically be adjusted so that there shall be a uniform number of days in subsequent Dividend Periods (such number of days without giving effect to the adjustments referred to above being referred to herein as "Subsequent Dividend Period Days") commencing after the date of such change in law equal to or, to the extent necessary, in excess of the then current Minimum Holding Period; provided that the number of Subsequent Dividend Period Days shall not exceed by more than nine days the length of such then-current Minimum Holding Period and shall be evenly divisible by seven, and the maximum number of Subsequent Dividend Period Days, as adjusted pursuant to this provision, in no event shall exceed 119 days.

(F) If a Normal Dividend Payment Date for shares of Remarketing Preferred with Dividend Periods of less than 7 days is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(g)(i) For the Initial Dividend Periods dividends will accumulate at a rate per annum of 3.25% for Series G Preferred Stock, 3.25% for Series H Preferred Stock, 3.25% for Series I Preferred Stock, and 3.25% for Series J Preferred Stock (in each case, the "Initial Dividend Rate"). The dividend rate for each share of Preferred Stock for each subsequent Dividend Period shall be the Applicable Rate determined by either the Auction Method or the Remarketing Method.

(ii) Notwithstanding the application of either the Auction Method or the Remarketing Method, the dividend rate on each share of Preferred Stock shall not exceed the Maximum Applicable Rate per annum for any Dividend Period; provided, however, that the Chief Financial Officer of the Corporation (the "Chief Financial Officer") based on certain factors may increase the Percentage used to calculate the Maximum Applicable Rate at any time up to certain amounts set forth below in Section 3(h)(ii). The provisions of the

immediately preceding sentence notwithstanding, at any time that the application of the provisions with respect to a Failure to Deposit would, but for the provisions of the immediately preceding sentence, result in a dividend rate on a share of Preferred Stock being in excess of the Maximum Applicable Rate per annum, the maximum dividend rate applicable to such share of Preferred Stock shall be such higher dividend rate as provided below.

(h)(i) Not later than 10:00 A.M., New York City time, on the related Auction Date or Remarketing Date, as the case may be, and based on the criteria set forth below, the Chief Financial Officer may, upon telephonic and written notice, to the Auction Agent, each applicable Remarketing Agent, the Securities Depository, the Remarketing Depository and any other record holder of shares of Preferred Stock affected thereby, increase the percentage (the "Percentage") used to calculate the Maximum Applicable Rate for any shares of Preferred Stock (a "Notice of Percentage Increase"). Such Notice of Percentage Increase shall specify the new Percentages to be used to calculate the Maximum Applicable Rate and shall be in substantially the form of Exhibit G to the Auction Agent Agreement.

The Chief Financial Officer may increase such Percentages if the Chief Financial Officer determines that supervening considerations make the Percentages then in effect inimical to the financial interests of the Corporation and that such increase is necessary to enable the operation of the then-applicable Method to provide the Corporation with the most favorable financing alternatives based on then-current Marketing Conditions. The Chief Financial Officer may not revoke a Notice of Percentage Increase and the Percentages specified therein will be the applicable Percentages for the determination of the Maximum Applicable Rate with respect to such shares for subsequent Dividend Periods, except as described below, until a new Notice of Percentage Increase shall be delivered in accordance with the terms thereof.

(ii) Except as described below, the Chief Financial Officer may not increase the Percentage used to calculate the Maximum Applicable Rate to above the Percentages set forth in the third column of the table below corresponding to the applicable credit ratings set forth in the first two columns of the table below.

Credit Rating		Maximum Percentage Permitted to be Used to Calculate Maximum Applicablee
Moody's	Standard & Poor's	Rate
"aa3" or Above	AA- or Above	175%
"a3" to "a1"	A- to A+	225%
"baa3" to "baa1"	+BBB- to BBB	250%
Below "baa3"	Below BBB	275%

The maximum percentages set forth in the third column of the above table may be increased by the Chief Financial Officer, upon receipt of an opinion of counsel addressed to the Corporation to the effect that the use of such higher percentages to calculate the Maximum Applicable Rate will not adversely affect the tax treatment of the Preferred Stock.

(iii) The Chief Financial Officer may only raise the Percentage applicable to a Series of Auction Preferred if the Chief Financial Officer raises such Percentage for all the shares of such Series. The Chief Financial Officer may, however, only raise the Percentage applicable to shares of Remarketing Preferred with respect to those shares of Remarketing Preferred being remarketed on the same date, and shall not be required to raise the Percentage applicable to any other shares of Remarketing Preferred. However, if the Percentage applicable to a share of Remarketing Preferred is less than the Percentage applicable to any other share of Remarketing Preferred of the same Series, the lower Percentage applicable to such share shall, at the end of the current Dividend Period for such share, automatically be increased to the highest Percentage then applicable to any share of Remarketing Preferred of such Series, unless the Chief Financial Officer elects to increase further the Percentage applicable to such share.

(i)(A) In the event a Failure to Deposit occurs and any such Failure to Deposit shall not have been cured within three Business Days after such occurrence, then until such time as the full amount due shall have been paid to the Paying Agent, the Auction Procedures and the Remarketing Procedures will be suspended. The Applicable Rate for each Dividend Period commencing on or after any such Dividend Payment Date (or redemption date, as the case may be) on which there has been a Failure to Deposit and such Failure to Deposit has not been cured within three Business Days shall be equal to the Default Rate for such Dividend Period. In addition, if any such Dividend Payment Date was not the last day of a Dividend Period, the Applicable Rate for the portion of such Dividend Period commencing on such Dividend Payment Date and ending on the day preceding the next succeeding Dividend Payment Date shall be the Default Rate for such period, computed as if such period were a "Dividend Period". If there has been a failure to pay dividends on the last day of a Dividend Period, the Dividend Period to which such Default Rate will apply shall be a Standard Dividend Period in the case of Auction Preferred and successive one day periods in the case of Remarketing Preferred. If there has been a failure to pay the redemption price of shares of Preferred Stock called for redemption, the Dividend Period to which such Default Rate will apply shall be the period commencing on, and including, the redemption date and ending on, but excluding, the date the redemption price is paid to the Paying Agent. The suspension of the Auction Procedures and the Remarketing Procedures shall continue in effect until there shall occur a Dividend Payment Date at least one Business Day prior to which the full amount of any dividends (whether or not earned or declared) payable on each Dividend Payment Date

prior to and including such Dividend Payment Date along with any Additional Payments then due, and the full amount of any redemption price (including accumulated and unpaid dividends) then due shall have been paid to the Paying Agent, and thereupon application of the Auction Procedures and the Remarketing Procedures shall resume for any Outstanding shares on the terms stated herein for Dividend Periods commencing with such Dividend Payment Date. If a Failure to Deposit is cured within three Business Days, then the Applicable Rate will be the dividend rate established in connection with any Auction or Remarketing relating to such shares of Preferred Stock conducted immediately preceding the Failure to Deposit, provided that the Applicable Rate shall be the Default Rate for each day (excluding the date of deposit) until the Failure to Deposit is cured. Such Default Rate shall be computed using the Dividend Period established in connection with any Auction or Remarketing relating to such shares of Preferred Stock conducted immediately preceding the Failure to Deposit.

(B) Any Failure to Deposit with respect to any share of Preferred Stock shall be deemed to be cured if, with respect to a Failure to Deposit relating to (a) the payment of dividends on such shares of Preferred Stock, the Corporation deposits with the Paying Agent by 11:00 A.M., New York City time, all accumulated and unpaid dividends on such shares of Preferred Stock, including the full amount of any dividends to be paid with respect to the Dividend Period or portion thereof with respect to which the Failure to Deposit occurred, plus Additional Payments, and (b) the redemption of such shares, the Corporation deposits with the Paying Agent by 11:00 A.M., New York City time, funds sufficient for the redemption of such shares (including accumulated and unpaid dividends) and gives irrevocable instructions to apply such funds and, if applicable, the income and proceeds therefrom, to the payment of the redemption price (including accumulated and unpaid dividends) for such shares. If the Corporation shall have cured such Failure to Deposit by making timely payment to the Paying Agent, either the Auction Agent or the Remarketing Agent, as the case may be, will give telephonic and written notice of such cure to each Holder of shares of Preferred Stock at the telephone number and address specified in such Holder's Master Purchaser's Letter and to each Broker-Dealer, in the case of the Auction Agent, as promptly as practicable after such cure is effected. Additional Payments paid to the Paying Agent with respect to a Failure to Deposit will be payable to the Holders of shares of Preferred Stock on the Record Date for the Dividend Payment Date with respect to which such Failure to Deposit occurred.

(j) If an Auction or Remarketing for any shares of Preferred Stock is not held on an Auction Date or Remarketing Date for any reason (other than because of the suspension of Auctions or Remarketing due to a Failure to Deposit as described above), the dividend rate for such shares shall be the Maximum Applicable Rate (calculated assuming a Standard Dividend Period) determined as of such Auction Date or Remarketing Date and the Dividend Period shall be a Standard Dividend Period, in the case of Auction Preferred, and successive Dividend Periods of one day, in the case of Remarketing Preferred, until such shares of Remarketing Preferred are remarketed.

(k) The amount of dividends per share payable on any Dividend Payment Date on a share of Preferred Stock having a Dividend Period of up to 364 days shall be computed by multiplying the Applicable Rate for each Dividend Period by a fraction the numerator of which shall be the number of days between Dividend Payment Dates (calculated by counting the date of the preceding Dividend Payment Date as the first day and the day preceding the current Dividend Payment Date as the last day) and the denominator of which shall be 360, and multiplying the amount so obtained by $250,000. During any Dividend Period of 365 days or longer, the amount of dividends accumulated on each share will be computed on the basis of a 360-day year consisting of twelve 30-day months.

(l)(i) Holders of shares of each Series of Preferred Stock shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends. So long as any shares of Preferred Stock are Outstanding, the Corporation shall not declare or pay or set apart for payment any dividends or make any other distributions on, or payment on account of the purchase, redemption or other retirement of the common stock of the Corporation or any other capital stock of the Corporation ranking junior to the Preferred Stock as to dividends or as to distributions upon liquidation, dissolution or winding-up of the Corporation unless (i) full cumulative dividends on the Preferred Stock have been paid (or declared and a sum sufficient for the payment thereof set apart for such payment) for all Dividend Periods terminating on or prior to the date of such payment, distribution, purchase, redemption or other retirement with respect to such junior capital stock and (ii) the Corporation is not in default with respect to any obligation to redeem or retire shares of the Preferred Stock; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Corporation, junior to the Preferred Stock or (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Corporation, junior to the Preferred Stock in exchange solely for shares of any other stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding-up of the Corporation, junior to the Preferred Stock.

(ii) Each dividend will be payable to the holder or holders of record of shares of Preferred stock as they appear on the Stock Books on the Business Day next preceding the applicable Dividend Payment Date. Dividends in arrears for any past Dividend Period (and for any past Dividend Payment Date occurring prior to the end of a Long Dividend Period or a Short Dividend Period) may be declared and paid at any time, without reference to any regular Dividend Payment Date, to the record holders of such shares. Any dividend payment made on any shares of Preferred Stock shall first be credited against the dividends accumulated with respect to the earliest Dividend Payment Date for which dividends have not been paid with respect to such shares. So long as

the shares of Preferred stock are held of record by the nominee of the Securities Depository or the Remarketing Depository, as the case may be, dividends will be paid to the nominee of the Securities Depository or the Remarketing Depository, on each Dividend Payment Date.

(iii) Unless otherwise provided for in the Restated Certificate of Incorporation, as the same may be amended, of the Corporation, all payments in the form of dividends made upon shares of Preferred Stock and any other stock ranking on a parity with the Preferred Stock with respect to such dividend shall be pro rata, so that amounts paid per share on the Preferred Stock and such other stock shall in all cases bear to each other the same ratio that the required dividends then payable per share on the shares of Preferred Stock and such other stock bear to each other.

Section 4. Optional Redemption.

(a) At the option of the Corporation, by resolution of the Board of Directors, the shares of a Series of Preferred Stock may be redeemed, in whole or in part, out of funds legally available therefor, on the Business Day immediately preceding any Dividend Payment Date for such shares, upon at least 15 but not more than 45 days notice, at a redemption price per share equal to the sum of $250,000 plus premium thereon, if any, and an amount equal to accrued and unpaid dividends thereon (whether or not earned or declared) to the date that the Corporation pays the full amount payable upon redemption of such shares; provided that such redemption date shall be the Dividend Payment Date for such shares if the payment on the Business Day preceding such date would reduce the holding period for such shares since the Auction Date or Remarketing Date preceding such payment below the Minimum Holding Period. Pursuant to such right of optional redemption, the Corporation may elect to redeem some or all of the shares of Preferred Stock of any Series without redeeming shares of any other Series.

(b)(i) Notwithstanding the foregoing, if any dividends on shares of any Series of Preferred Stock are in arrears, (i) no shares of such Series of Preferred Stock or of any other Series of Preferred Stock shall be redeemed unless all outstanding shares of each Series of Preferred Stock are simultaneously redeemed and (ii) the Corporation shall not purchase or otherwise acquire any shares of Preferred Stock; provided, however, that the foregoing shall not prevent the purchase or acquisition of shares of Preferred Stock pursuant to an otherwise lawful purchase or exchange offer made on the same terms to all Holders of Outstanding shares of Preferred Stock.

(ii) In connection with the selection of a Long Dividend Period, the Term Selection Agent or the applicable Remarketing Agent, as the case may be, may restrict the Corporation's ability to redeem shares of Preferred Stock by providing for the payment of a redemption premium or fixing a period of time during which such shares of Preferred Stock may not be redeemed if the Term Selection Agent or the applicable Remarketing Agent, as the case be, determines, based on the then-current Marketing Conditions, that adding such terms will result in the most favorable financing alternative for the Corporation.

(c)(i) If shares of Preferred Stock are to be redeemed, the Redemption Agent will, at the direction of the Corporation, cause to be sent, by first-class or air mail, postage prepaid, telex or facsimile, a notice of redemption to each holder of record (initially Cede & Co., as nominee of the Securities Depository) of shares of Preferred Stock to be redeemed. Such notice of redemption shall be sent not fewer than fifteen nor more than 45 days prior to the redemption date. Each notice of redemption will identify the Preferred Stock to be redeemed by CUSIP number and will state (a) the redemption date, (b) the redemption price, (c) the place where the redemption price is to be paid and (d) the number of shares of Preferred Stock and the Series thereof to be redeemed. The notice will also be published in The Wall Street Journal.

(ii) No defect in the notice of redemption or in the mailing or publication thereof will affect the validity of the redemption proceedings, except as required by applicable law. A notice of redemption will be deemed given on the day that it is mailed in accordance with the foregoing description.

(iii) The Corporation may elect to redeem some or all of the shares of each Series of Preferred Stock.

(iv) In the case of shares of a Series of Auction Preferred, so long as the Securities Depository's nominee is the record holder of such shares, the Redemption Agent will give notice to the Securities Depository, and the Securities Depository will determine the number of shares of each such Series to be redeemed from the accounts of each of its Participants. A Participant may determine to redeem shares from certain of the beneficial holders holding through such Participant (which may include a Participant holding shares for its own account) without redeeming shares from the accounts of other beneficial owners.

Any such redemption will be made in accordance with applicable laws and rules.

(v) In the case of shares of Remarketing Preferred, notice of such redemption shall be given to the Securities Depository or the Remarketing Depository, as the case may be, and any other record holders of the Remarketing Preferred to be redeemed. The Corporation shall identify by CUSIP number the shares of Remarketing Preferred to be redeemed. To the extent less than all of the shares of Remarketing Preferred represented by a certificate with a particular CUSIP number are to be redeemed, the applicable Depository shall determine the shares represented by such certificate to be redeemed. In the case of the Securities Depository, the shares to be redeemed shall be determined as described in the preceding paragraph, and in the case of the Remarketing Depository, the Remarketing Depository shall determine the number

of shares represented by such certificate to be redeemed from each Holder thereof.

(vi) If any shares of Preferred Stock to be redeemed are not held of record by a nominee for the Securities Depository or the Remarketing Depository, the particular shares of Preferred Stock to be redeemed shall be selected by the Corporation by lot or by such other method as the Corporation shall deem fair and equitable.

(vii) Upon any date fixed for redemption (unless a Failure to Deposit occurs), all rights of the Holders of shares of Preferred Stock called for redemption will cease and terminate, except the right of such Holders to receive the amounts payable in respect of such redemption therefor, but without interest, and such shares of Preferred Stock will be deemed no longer outstanding and, upon the taking of any action required by applicable law, shall have the status of authorized and unissued shares of preferred stock and may be reissued by the Corporation at any time as shares of any series of preferred stock other than as shares of Preferred Stock.

Section 5. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of the shares of the Preferred Stock shall be entitled to receive, out of the assets of the Corporation, whether such assets are capital or surplus and whether or not any dividends as such are declared but before any payment or distribution of assets is made to holders of common stock of the Corporation or any other class of stock or series thereof ranking junior to the Preferred Stock with respect to the distribution of assets, a preferential liquidation distribution in the amount of $250,000 per share of Preferred Stock plus an amount equal to accumulated and unpaid dividends on each such share (whether or not declared) to and including the date of such distribution and no more. Neither the merger or consolidation of the Corporation with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Corporation, nor the sale, lease, exchange or other transfer of all or any portion of the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 5.

(b) If upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the assets of the Corporation available for distribution to the holders of Preferred Stock and any other series of capital stock of the Corporation ranking on a parity with the Preferred Stock are insufficient to pay the holders of the Preferred Stock the full amount of the preferential liquidation distributions to which they are entitled, then such assets of the Corporation shall be distributed ratably among the holders of Preferred Stock and any other series of capital stock of the Corporation ranking on a parity with the Preferred Stock based upon the ratio of (x) the aggregate amount available for distribution on all shares of Preferred Stock and such parity stock to (y) the total amount distributable on all shares of Preferred Stock and such parity stock upon liquidation.

Section 6. Voting Rights.

(a) Holders of the Preferred Stock will have no voting rights except as hereinafter described or as otherwise provided by the General Corporation Law of the State of Delaware; provided, however, that the affirmative vote of the holders of record of at least 66 2/3% of the Outstanding shares of Preferred Stock, voting separately as one class, shall be necessary to adopt any alteration, amendment or repeal of any provision of the Articles of Incorporation or this Certificate of Designations (including any such alteration, amendment or repeal effected by any merger or consolidation), if such alteration, amendment or repeal would alter or change the powers, preferences or special rights of the shares of Preferred Stock so as to affect them adversely.

(b)(i) If at any time the equivalent of six or more full quarterly dividends (whether or not consecutive) payable on the Preferred Stock shall be in arrears (to any extent) (a "Default Period"), the number of directors constituting the Board of Directors of the Corporation shall be increased by two (2), and the holders of record of the Preferred Stock shall have the exclusive right, voting as a class with any other shares of preferred stock of the Corporation so entitled to vote thereon, to elect the directors to fill such newly created directorships. This right shall remain vested until all dividends in arrears on the Preferred Stock have been paid or declared and set apart for payment, at which time (A) the right shall terminate (subject to revesting), (B) the term of the directors then in office elected in accordance with the foregoing shall terminate, and (C) the number of directors constituting the Board of Directors of the Corporation shall be reduced by the number of directors whose term has been terminated pursuant to clause (B) above. For purposes of the foregoing, default in the payment of dividends for the equivalent of six quarterly dividends means, in the case of Preferred Stock which pays dividends either more or less frequently than every quarter, default in the payment of dividends in respect of one or more Dividend Periods containing not less than 540 days.

(ii) Whenever such right shall vest, it may be exercised initially by the vote of the holders of record of a majority of the shares of Preferred Stock present and voting, in person or by proxy, at a special meeting of holders of record of the Preferred Stock or at the next annual meeting of stockholders. A special meeting for the exercise of such right shall be called by the Secretary of the Corporation as promptly as possible, and in any event within 10 days after receipt of a written request signed by the holders of record of at least 25% of the Outstanding shares of the Preferred Stock, subject to any applicable notice requirements imposed by law. Notwithstanding the provisions of this paragraph, no such special meeting

shall be held during the 30-day period preceding the date fixed for the annual meeting of stockholders of the Corporation.

(iii) So long as a Default Period continues, any director who shall have been elected by holders of record of Preferred Stock entitled to vote in accordance herewith shall hold office for a term expiring at the next annual meeting of stockholders and during such term may be removed at any time, without cause by, and only by, the affirmative vote of the holders of record of a majority of the shares of Preferred Stock present and voting, in person or by proxy, at a special meeting of such stockholders of record called for such purpose, and any vacancy created by such removal may also be filled at such meeting. A meeting for the removal of a director elected by the holders of record of Preferred Stock and the filling of the vacancy created thereby shall be called by the Secretary of the Corporation as promptly as possible and in any event within 10 days after receipt of request therefor signed by the holders of record of not less than 25% of the Outstanding shares of Preferred Stock, subject to any applicable notice requirements imposed by law. Such meeting shall be held at the earliest practicable date thereafter. Notwithstanding the provisions of this paragraph, no such meeting shall be held during the 30-day period preceding the date fixed for the annual meeting of stockholders of the Corporation.

(iv) Any vacancy caused by the death, resignation or expiration of the term of office of a director who shall have been elected in accordance with these provisions may be filled by the remaining director so elected or, if not so filled, by a vote of holders of record of a majority of the shares of Preferred Stock present and voting, in person or by proxy, at a meeting called for such purpose (or, in the case of expiration of the term of office of such director, at the annual meeting of stockholders of the Corporation). Unless such vacancy shall have been filled by the remaining director or by vote at the annual meeting of stockholders, such special meeting shall be called by the Secretary of the Corporation at the earliest practicable date after such death, resignation or expiration of term of office, and in any event within 10 days after receipt of a written request signed by the holders of record of at least 25% of the Outstanding shares of Preferred Stock. Notwithstanding the provisions of this paragraph, no such special meeting shall be held during the 30-day period preceding the date fixed for the annual meeting of stockholders of the Corporation.

(v) If any meeting of the holders of the Preferred Stock required above to be called shall not have been called within 10 days after personal service of a written request therefor upon the Secretary of the Corporation or within 15 days after mailing the same by registered mail addressed to the Secretary of the Corporation at his principal office, subject to any applicable notice requirements imposed by law, then the holders of record of at least 25% of the Outstanding shares of Preferred Stock may designate in writing a holder of Preferred Stock to call such meeting at the expense of the Corporation, and such meeting may be called by such person so designated upon the notice required for annual meetings of stockholders or such shorter notice (but in no event shorter than permitted by law) as may be acceptable to the holders of a majority of the total number of shares of Preferred Stock. Any holder of Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing such meeting to be called pursuant to these provisions. Such meeting shall be held at the earliest practicable date thereafter. Notwithstanding the provisions of this paragraph, no such meeting shall be held during the 30-day period preceding the date fixed for the annual meeting of stockholders of the Corporation.

(vi) At any meeting of the holders of record of the Preferred Stock called in accordance with the above provisions for the election or removal of directors, the presence in person or by proxy of the holders of record of one-third of the total number of Outstanding shares of Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders of record present in person or by proxy shall have power to adjourn the meeting from time to time without notice, other than announcement at the meeting, until a quorum shall be present.

Section 7. Auction Procedures.

(a) Certain Definitions. Capitalized terms not defined in this Section 7 shall have the respective meanings specified elsewhere in this part of Article IV(B). As used in this Section 7, the following terms shall have the following meanings, unless the context otherwise requires:

(i) "Available Shares of Auction Preferred" has the meaning set forth in subsection (d)(i) below.

(ii) "Bid" has the meaning set forth in subsection (b)(i) below.

(iii) "Bidder" has the meaning set forth in subsection (b)(i) below.

(iv) "Broker-Dealer Agreement" means an agreement between the Auction Agent and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in these Auction Procedures.

(v) "Hold Order" has the meaning set forth in subsection (b)(i) below.

(vi) "Order" has the meaning set forth in subsection (b)(i) below.

(vii) "Potential Holder" means any Person, including any Existing Holder, (A) who shall have executed a Purchaser's Letter and (B) who may be interested in acquiring shares of Auction Preferred (or, in the case of an Existing Holder, additional shares of Auction

Preferred).

(viii) "Sell Order" has the meaning set forth in subsection (b)(i) below.

(ix) "Submission Deadline" means 1:00 P.M., New York City time, on any Auction Date, or such other time on any Auction Date as may be specified from time to time by the Auction Agent as the time prior to which each Broker-Dealer must submit to the Auction Agent in writing all Orders obtained by it for the Auction to be conducted on such Auction Date.

(x) "Submitted Bid" has the meaning set forth in subsection (c)(i) below.

(xi) "Submitted Hold Order" has the meaning set forth in subsection (c)(i) below.

(xii) "Submitted Order" has the meaning set forth in subsection (c)(i) below.

(xiii) "Submitted Sell Order" has the meaning set forth in subsection (c)(i) below.

(xiv) "Sufficient Clearing Bids" has the meaning set forth in subsection (d)(i) below.

(xv) "Winning Bid Rate" has the meaning set forth in subsection (d)(i) below.

(b) Orders by Existing Holders and Potential Holders.

(i) Prior to the Submission Deadline on each Auction Date for any Series of Auction Preferred:

(A) each Existing Holder may submit to a Broker-Dealer information as to:

(1) the number of Outstanding shares of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to continue to hold without regard to the Applicable Rate for the next succeeding Dividend Period;

(2) the number of Outstanding shares of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to sell, provided that the Applicable Rate for the next succeeding Dividend Period is less than the rate per annum specified by such Existing Holder; and/or

(3) the number of Outstanding shares of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to sell without regard to the Applicable Rate for the next succeeding Dividend Period; and

(B) each Broker-Dealer, using a list of Potential Holders that shall be maintained inaccordance with the provisions set forth in the Broker-Dealer Agreement for the purpose of conducting a competitive Auction, shall contact both Existing Holders and Potential Holders, including Existing Holders with respect to an offer by any such Existing Holder to purchase additional shares of Auction Preferred, on such list to notify such Existing Holders and Potential Holders as to the length of the next Dividend Period and (i) with respect to any Short Dividend Period or Long Dividend Period, the Dividend Payment Date(s) and (ii) with respect to any Long Dividend Period, any dates before which shares of Auction Preferred may not be redeemed and any redemption premium applicable in an optional redemption and to determine the number of Outstanding shares of Auction Preferred, if any, with respect to which each such Existing Holder and each Potential Holder desires to submit an Order and each such Potential Holder offers to purchase, provided that the Applicable Rate for the next succeeding Dividend Period shall not be less than the rate per annum specified by such Potential Holder.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A) or (B) of this Subsection (b)(i) is hereinafter referred to as an "Order" and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder;" an Order containing the information referred to in clause (A)(1) of this Subsection (b)(i) is hereinafter referred to as a "Hold Order;" an Order containing the information referred to in clause (A)(2) or (B) of this Subsection (b)(i) is hereinafter referred to as a "Bid;" and an Order containing the information referred to in clause (A)(3) of this Subsection (b)(i) is hereinafter referred to as a "Sell Order".

(ii) (A) A Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding shares of Auction Preferred specified in such Bid if the Applicable Rate determined on such Auction Date shall be less than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding shares of Auction Preferred to be determined as set forth in Subsections (e)(i)(D) and (e)(iii) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein; or

(3) a lesser number of Outstanding shares of Auction Preferred to be determined as set forth in Subsections (e)(ii)(C) and (e)(iii) if such specified rate per annum shall be higher than the Maximum Applicable Rate and Sufficient Clearing Bids do not exist.

(B) A Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding shares of Auction Preferred specified in such Sell Order; or

(2) such number or a lesser number of Outstanding shares of Auction Preferred to be determined as set forth in Subsections (e)(ii)(C) and (e)(iii) if Sufficient Clearing Bids do not exist.

(C) A Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the number of Outstanding shares of Auction Preferred specified in such Bid if the Applicable Rate determined on such Auction Date shall be higher than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding shares of Auction Preferred to be determined as set forth in Subsections (e)(i)(E) and (e)(iv) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein.

(c) Submission of Orders by Broker-Dealers to Auction Agent.

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date for any Series of Auction Preferred all Orders obtained by such Broker-Dealer specifying with respect to each Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate number of Outstanding shares of Auction Preferred that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Holder:

(1) the number of Outstanding shares of Auction Preferred, if any, subject to any Hold Order placed by such Existing Holder;

(2) the number of Outstanding shares of Auction Preferred, if any, subject to any Bid placed by such Existing Holder and the rate per annum specified in such Bid; and

(3) the number of Outstanding shares of Auction Preferred, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate per annum specified in such Potential Holder's Bid.

(Each "Hold Order", "Bid" or "Sell Order" as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order", a "Submitted Bid" or a "Submitted Sell Order", as the case may be, or as a "Submitted Order".)

(ii) If any rate per annum specified in any Submitted Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If one or more Orders covering in the aggregate all of the Outstanding shares of Auction Preferred held by an Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline for any reason (including the failure of a Broker-Dealer to contact such Existing Holder or to submit such Existing Holder's Order or Orders), such Existing Holder shall be deemed to have submitted a Hold Order covering the number of Outstanding shares of Auction Preferred held by such Existing Holder that are not subject to Orders submitted to the Auction Agent.

(iv) A Submitted Order or Submitted Orders of an Existing Holder that cover in the aggregate more than the number of Outstanding shares of Auction Preferred held by such Existing Holder will be considered valid in the following order of priority:

(A) any Submitted Hold Order of such Existing Holder will be considered valid up to and including the number of Outstanding shares of Auction Preferred held by such Existing Holder, provided that, if there is more than one such Submitted Hold Order and the aggregate number of shares of Auction Preferred subject to such Submitted Hold Orders exceeds the number of Outstanding shares of Auction Preferred held by such Existing Holder, the number of shares of Auction Preferred subject to each of such Submitted Hold Orders will be reduced pro rata so that such Submitted Hold Orders in the aggregate will cover exactly the number of Outstanding shares of Auction Preferred held by such

Existing Holder;

(B) any Submitted Bids of such Existing Holder will be considered valid (in the ascending order of their respective rates per annum if there is more than one Submitted Bid of such Existing Holder) for the number of Outstanding shares of Auction Preferred held by such Existing Holder equal to the difference between (i) the number of Outstanding shares of Auction Preferred held by such Existing Holder and (ii) the number of Outstanding shares of Auction Preferred subject to any Submitted Hold Order of such Existing Holder referred to in clause (iv)(A) above (and, if more than one Submitted Bid of such Existing Holder specifies the same rate per annum and together they cover more than the remaining number of shares of Auction Preferred that can be the subject of valid Submitted Bids of such Existing Holder after application of clause (iv)(A) above and of the foregoing portion of this clause (iv)(B) to any Submitted Bid or Submitted Bids of such Existing Holder specifying a lower rate or rates per annum, the number of shares of Auction Preferred subject to each of such Submitted Bids specifying the same rate per annum will be reduced pro rata so that such Submitted Bids, in the aggregate, cover exactly such remaining number of Outstanding shares of Auction Preferred of such Existing Holder).

(C) any Submitted Sell Order of an Existing Holder will be considered valid up to and including the excess of the number of Outstanding shares of Auction Preferred held by such Existing Holder over the sum of (a) the number of shares of Auction Preferred subject to Submitted Hold Orders by such Existing Holder referred to in clause (iv)(A) above and (b) the number of shares of Auction Preferred subject to valid Submitted Bids by such Existing Holder referred to in clause (iv)(B) above; provided that, if there is more than one Submitted Sell Order of such Existing Holder and the number of shares of Auction Preferred subject to such Submitted Sell Orders is greater than such excess, the number of shares of Auction Preferred subject to each of such Submitted Sell Orders will be reduced pro rata so that such Submitted Sell Orders, in the aggregate, will cover exactly the number of shares of Auction Preferred equal to such excess.

The number of Outstanding shares of Auction Preferred, if any, subject to Submitted Bids of such Existing Holder not valid under clause (iv)(B) above shall be treated as the subject of a Submitted Bid by a Potential Holder at the rate per annum specified in such Submitted Bids.

(v) If there is more than one Submitted Bid by any Potential Holder in any Auction, each such Submitted Bid shall be considered a separate Submitted Bid with respect to the rate per annum and number of shares of Auction Preferred specified therein.

(d) Determination of Sufficient Clearing Bids, Winning Bid Rate and Applicable Rate.

(i) Not earlier than the Submission Deadline on each Auction Date for any Series of Auction Preferred, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers and shall determine:

(A) the excess of the total number of Outstanding shares of Auction Preferred over the number of shares of Auction Preferred that are the subject of Submitted Hold Orders (such excess being hereinafter referred to as the "Available Shares of Auction Preferred");

(B) from the Submitted Orders, whether the number of Outstanding shares of Auction Preferred that are the subject of Submitted Bids by Potential Holders specifying one or more rates per annum equal to or lower than the Maximum Applicable Rate exceeds or is equal to the sum of:

(1) the number of Outstanding shares of Auction Preferred that are the subject of Submitted Bids by Existing Holders specifying one or more rates per annum higher than the Maximum Applicable Rate, and

(2) the number of Outstanding shares of Auction Preferred that are subject to Submitted Sell Orders.

(if such excess or such equality exists (other than because the number of Outstanding shares of Auction Preferred in clauses (1) and (2) above are each zero because all of the Outstanding shares of Auction Preferred are the subject of Submitted Hold Orders), there shall exist "Sufficient Clearing Bids" and such Submitted Bids by Potential Holders shall be hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the winning bid rate (the "Winning Bid Rate"), which shall be the lowest rate per annum specified in the Submitted Bids that if:

(1) each Submitted Bid from Existing Holders

specifying the Winning Bid Rate and all other Submitted Bids from Existing Holders specifying lower rates per annum were accepted, thus entitling such Existing Holders to continue to hold the shares of Auction Preferred that are the subject of such Submitted Bids, and

(2) each Submitted Bid from Potential Holders specifying the Winning Bid Rate and all other submitted Bids from Potential Holders specifying lower rates per annum were accepted, thus entitling such Potential Holders to purchase the shares of Auction Preferred that are the subject of such Submitted Bids, would result in such Existing Holders described in subclause (C)(1) continuing to hold an aggregate number of Outstanding shares of Auction Preferred that, when added to the number of Outstanding shares of Auction Preferred to be purchased by such Potential Holders described in subclause (C)(2), would equal or exceed the number of Available Shares of Auction Preferred.

(ii) In connection with any Auction and promptly after the Auction Agent has made the determinations pursuant to Subsection (d)(i), the Auction Agent shall advise the Corporation of the Maximum Applicable Rate and, based on such determinations, the Applicable Rate for the next succeeding Dividend Period as follows:

(A) if Sufficient Clearing Bids exist, that the Applicable Rate for the next succeeding Dividend Period shall be equal to the Winning Bid Rate;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding shares of Auction Preferred are the subject of Submitted Hold Orders), that the next succeeding Dividend Period will be a Standard Dividend Period and the Applicable Rate for the next succeeding Dividend Period determined shall be equal to the Maximum Applicable Rate for a Standard Dividend Period determined on the Business Day immediately preceding such Auction; or

(C) if all of the Outstanding shares of Auction Preferred are the subject of Submitted Hold Orders, that the Applicable Rate for the next succeeding Dividend Period shall be equal to 58% of the Applicable "AA" Composite Commercial Paper Rate, in the case of Auction Preferred with a Dividend Period of 7 to 48 days, a Standard Dividend Period or a Short Dividend Period of 183 days or less, 58% of the Applicable Treasury Bill Rate in the case of Auction Preferred with a Short Dividend Period of 184 to 364 days, or 58% of the Applicable Treasury Note Rate, in the case of Auction Preferred with a Long Dividend Period, in effect on the Auction Date.

(e) Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Shares of Auction Preferred. Based on the determinations made pursuant to Subsection (d)(i), the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, subject to the provisions of Subsections (e)(iii) and (e)(iv), Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the following order of priority and all other Submitted Bids shall be rejected:

(A) the Submitted Sell Orders of Existing Holders shall be accepted and the Submitted Bid of each of the Existing Holders specifying any rate per annum that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Holder to sell the Outstanding shares of Auction Preferred that are the subject of such Submitted Sell Order or Submitted Bid;

(B) the Submitted Bid of each of the Existing Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid;

(C) the Submitted Bid of each of the Potential Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted;

(D) the Submitted Bid of each of the Existing Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid, unless the number of Outstanding shares of Auction Preferred subject to all such Submitted Bids shall be greater than the number of Outstanding shares of Auction Preferred ("Remaining Shares of Auction Preferred") equal to the excess of the Available Shares of Auction Preferred over the number of Outstanding shares of Auction Preferred subject to Submitted Bids described in Subsections (e)(i)(B) and (e)(i)(C), in which event the Submitted Bids of each such Existing Holder shall be rejected, and each such Existing Holder shall be required to sell Outstanding shares of Auction Preferred, but only in an amount equal to the difference

between (1) the number of Outstanding shares of Auction Preferred then held by such Existing Holder subject to such Submitted Bid and (2) the number of shares of Auction Preferred obtained by multiplying (x) the number of Remaining Shares of Auction Preferred by (y) a fraction, the numerator of which shall be the number of Outstanding shares of Auction Preferred held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the aggregate number of Outstanding shares of Auction Preferred subject to such Submitted Bids made by all such Existing Holders that specified a rate per annum equal to the Winning Bid Rate; and

(E) the Submitted Bid of each of the Potential Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the number of Outstanding shares of Auction Preferred obtained by multiplying (x) the difference between the Available Shares of Auction Preferred and the number of Outstanding shares of Auction Preferred subject to Submitted Bids described in Subsections (e)(i)(B), (e)(i)(C) and (e)(i)(D) by (y) a fraction, the numerator of which shall be the number of Outstanding shares of Auction Preferred subject to such Submitted Bid and the denominator of which shall be the sum of the number of Outstanding shares of Auction Preferred subject to such Submitted Bids made by all such Potential Holders that specified rates per annum equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding shares of Auction Preferred are subject to Submitted Hold Orders), subject to the provisions of Subsection (e)(iii), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids of Potential Holders shall be rejected:

(A) the Submitted Bid of each Existing Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus entitling such Existing Holder to continue to hold the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid;

(B) the Submitted Bid of each Potential Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus requiring such Potential Holder to purchase the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid; and

(C) the Submitted Bids of each Existing Holder specifying any rate per annum that is higher than the Maximum Applicable Rate shall be rejected, thus requiring each such Existing Holder to sell the Outstanding shares of Auction Preferred that are the subject of such Submitted Bid, and the Submitted Sell Orders of each Existing Holder shall be accepted, in both cases only in an amount equal to the difference between (1) the number of Outstanding shares of Auction Preferred then held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and (2) the number of shares of Auction Preferred obtained by multiplying (x) the difference between the Available Shares of Auction Preferred and the aggregate number of Outstanding shares of Auction Preferred subject to Submitted Bids described in Subsections (e)(ii)(A) and (e)(ii)(B) by (y) a fraction, the numerator of which shall be the number of Outstanding shares of Auction Preferred held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate number of Outstanding shares of Auction Preferred subject to all such Submitted Bids and Submitted Sell Orders

(iii) If, as a result of the procedures described in Subsections (e)(i) or (e)(ii), any Existing Holder would be entitled or required to sell or any Potential Holder would be entitled or required to purchase, a fraction of a share of Auction Preferred on any Auction Date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the number of shares of Auction Preferred to be purchased or sold by any Existing Holder or Potential Holder on such Auction Date so that only whole shares of Auction Preferred will be entitled or required to be sold or purchased.

(iv) If, as a result of the procedures described in Subsection (e)(i), any Potential Holder would be entitled or required to purchase less than a whole share of Auction Preferred on any Auction Date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate shares of Auction Preferred for purchase among Potential Holders so that only whole shares of Auction Preferred are purchased on such Auction Date by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any shares of Auction Preferred on such Auction Date.

(v) Based on the results of each Auction, the Auction Agent shall determine, with respect to each Broker-Dealer that submitted Bids or Sell Orders on behalf of Existing Holders or Potential Holders, the aggregate

number of Outstanding shares of Auction Preferred to be purchased and the aggregate number of Outstanding shares of Auction Preferred to be sold by such Potential Holders and Existing Holders and, to the extent that such aggregate number of Outstanding shares of Auction Preferred to be purchased and such aggregate number of Outstanding shares of Auction Preferred to be sold differ, the Auction Agent shall determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Outstanding shares of Auction Preferred.

Section 8. Auction Agent.

The Corporation shall use its best efforts to maintain, pursuant to a written agreement (the "Auction Agent Agreement"), an Auction Agent with respect to each Series of Auction Preferred, to act in accordance with the provisions set forth herein with respect to such Series.

Section 9. Remarketing Procedures.

(a) Determination of Dividend Periods and Dividend Rates for Remarketing MAPS. Subject to Section 3 hereof, the duration of each subsequent Dividend Period and the dividend rate for each subsequent Dividend Period with respect to any share of Remarketing Preferred will be established by a Remarketing Agent and will be conclusive and binding on the Corporation and the Holder of such share of Remarketing Preferred. Each Remarketing Agent will establish dividend rates, not in excess of the Maximum Applicable Rate, for each Dividend Period which it determines will be the lowest rate at which tendered Shares of Remarketing Preferred would be remarketed at $250,000 per share. In establishing each Dividend Period and dividend rate, each Remarketing Agent will establish Dividend Periods and dividend rates which it determines will result in the most favorable financing alternative for the Corporation based on the then-current Marketing Conditions.

(b) Remarketing; Tender for Remarketing. The following procedures shall be applicable to each share of Remarketing Preferred:

(i) The Remarketing Agent. Each Remarketing Agent shall use its best efforts, on behalf of the Holders thereof, to remarket all shares of Remarketing Preferred tendered for sale by Remarketing for which it is acting as Remarketing Agent without charge to such Holder, only at $250,000 per share, provided that no such Remarketing Agent shall be obligated to remarket such Remarketing Preferred if there shall be a material misstatement or omission in any disclosure document provided by the Corporation and used in connection with the Remarketing of such Remarketing Preferred or at any time such Remarketing Agent shall have determined that it is not advisable to remarket Remarketing Preferred by reason of: (i) a pending or proposed change in applicable tax laws, (ii) a material adverse change in the financial condition of the Corporation, (iii) a banking moratorium, (iv) domestic or international hostilities, (v) an amendment of the provisions hereof which materially and adversely changes the nature of the shares of Remarketing Preferred or the Remarketing Procedures or (vi) a Failure to Deposit. Any Remarketing Agent may, but shall not be obligated to, purchase tendered Remarketing Preferred for its own account. Should the Remarketing Agent for any share of Remarketing Preferred not succeed in Remarketing all such shares of Remarketing Preferred so tendered for Remarketing on any date, such Remarketing Agent shall select the shares of such Remarketing Preferred to be sold from those tendered pro rata. Payments in the amount of $250,000 per share of Remarketing Preferred remarketed shall be made by the Tender Agent by crediting such payments to the accounts of the Holders thereof maintained by the Tender Agent or, to the extent duly requested of the Tender Agent by Holders, by wire or other transfer in immediately available funds to their accounts with commercial banks in the United States. If for any reason a share of Remarketing Preferred is not remarketed on the date of tender, such share will be retained by its Holder. Until remarketed, each such share of Remarketing Preferred will have successive Dividend Periods of one day and will be entitled to dividends, payable on each succeeding Business Day at the Maximum Applicable Rate.

(ii) Notice of Shares of Remarketing Preferred to be Retained. Each share of Remarketing Preferred will be deemed to have been tendered for sale by Remarketing on the last day of each Dividend Period, unless the Holder thereof gives irrevocable notice to the contrary to the Remarketing Agent for such share of Remarketing Preferred or if so instructed by such Remarketing Agent, to the Tender Agent. Such notice, which may be telephonic or written, must be delivered, prior to 3:00 P.M., New York City time, on the Business Day immediately preceding the last day of a Dividend Period or on the earlier day specified in a notice, if any, mailed by the Tender Agent at the direction of such Remarketing Agent to such record holder at its address as the same appears on the Stock Books of the Corporation, which day will be a Business Day at least four Business Days after the mailing of such notice. The notice from such Holder of an election to retain shares of Remarketing Preferred shall state:

(A) the number of shares of such Remarketing Preferred held by the Securities Depository or the Remarketing Depository, and

(B) the number of such shares of Remarketing Preferred which shall be deemed not to have been so tendered.

(iii) Shares Deemed to Have Been Tendered. The failure to give notice of an election to retain any shares of Remarketing Preferred as provided in (b)(ii) above will constitute the irrevocable tender for sale by Remarketing of such shares of Remarketing Preferred. Certificates representing shares of Remarketing Preferred remarketed will be issued to the Securities Depository or the Remarketing Depository, as the case may be, irrespective of whether the certificates formerly representing such shares of Remarketing Preferred have been delivered to the Tender Agent. A Holder which has not given notice that it will retain its shares of Remarketing Preferred shall have no further rights with respect to such shares of Remarketing Preferred upon the Remarketing of such shares of Remarketing Preferred, except the right to receive any declared but unpaid dividends thereon and the proceeds of the Remarketing of such shares.

(iv) Funds for Purchase of Shares. Payments to Holders of shares of Remarketing Preferred remarketed will be made solely from the proceeds received from the purchasers of such shares in a Remarketing. Neither the Corporation, the Tender Agent nor any Remarketing Agent shall be obligated to provide funds to make payment to the holders of shares of Remarketing Preferred tendered for Remarketing.

(c) The Remarketing Process. The Remarketing process will be conducted on the following schedule and in the following manner (all times are New York City time):

The Last Business Day of a Dividend Period:* Beginning Not Later Than	
1:00 P.M.	The Remarketing Agent for the shares of Remarketing Preferred will determine and, upon request, make available to all interested persons non-binding indications of Dividend Periods and dividend rates based upon then current Marketing Conditions. Each Holder may obtain a binding commitment as to the specific Dividend Period or Dividend Periods and the related Applicable Rate or Applicable Rates which will be applicable to such Holder's shares should such Holder elect to retain them.
At 3:00 P.M.	Holders of shares of Remarketing Preferred will be deemed to have tendered shares of Remarketing Preferred for sale by Remarketing at $250,000 per share unless they have given contrary instructions to the Remarketing Agent for such shares of Remarketing Preferred or, if so instructed by such Remarketing Agent, to the Tender Agent.
After 3:00 P.M.	The applicable Remarketing Agent will solicit and receive orders from prospective investors to purchase tendered shares of Remarketing Preferred. A purchaser, at the time of its agreement to purchase shares of Remarketing Preferred, may obtain a binding commitment as to the specific Dividend Period or Dividend Periods and the related Applicable Rate or Applicable Rates for such shares of Remarketing Preferred based upon then-current Marketing Conditions.

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* Or such other time and day as may have been specified in a notice mailed to the holders of Remarketing Preferred.

First Business Day of Next Dividend Period:	
Opening of Business	The applicable Remarketing Agent will continue, if necessary, remarketing shares of Remarketing Preferred as described above.
By 1:00 P.M.	The applicable Remarketing Agent will have completed Remarketing and will advise the Tender Agent as to the Applicable Rate and Dividend Period applicable to each share of Remarketing Preferred commencing a Dividend Period on that day and of any failure to remarket.
By 2:30 P.M.	New Holders must deliver the purchase price as instructed by the applicable Remarketing Agent. Former Holders will be paid the proceeds of the Remarketing of their shares by the Tender Agent (upon surrender of their certificates, if applicable).

Section 10. The Remarketing Agent.

The Corporation will take all reasonable action necessary so that, at all times, at least one investment bank, broker, dealer or other organization qualified to remarket shares of Remarketing Preferred and to establish Dividend Periods and Applicable Rates is acting as Remarketing Agent for each share of Remarketing Preferred.

Section 11. Book Entry System.

(a) Shares of Preferred Stock with Dividend Periods of 7 days or longer shall be represented by a global certificate or certificates registered in the name of a nominee of the Securities Depository, as depository for such shares of Preferred Stock. Shares of Remarketing Preferred with Dividend Periods of less than 7 days shall be represented by a global certificate or certificates registered in the name of a nominee of the Remarketing Depository, as depository for such shares of Remarketing Preferred.

(b) All of the Outstanding shares of Auction Preferred of each Series shall be represented by a single certificate for each Series registered in the name of the nominee of the Securities Depository unless otherwise required by law or unless there is no Securities Depository. If there is no Securities Depository, shares of Auction Preferred shall be registered in the Stock Books in the name of the Existing Holder thereof and such Existing Holder thereupon will be entitled to receive a certificate therefor and be required to deliver a certificate therefor upon transfer or exchange thereof.

(c) Each Series of Remarketing Preferred shall be represented by a separate global security or global securities and shares of Remarketing Preferred having different Dividend Payment Dates, dividend rates, redemption provisions or Percentages, if any, shall be represented by a separate global security.

(d) Interests in shares of Preferred Stock represented by a global security will be shown on, and

transfers thereof will be effected only through, records maintained by the respective depository.

(e) If the Securities Depository should resign and the Corporation not select a substitute securities depository, physical delivery of certificates shall be made in the names of designated transferees in exchange for the global security or securities held for the account of the Securities Depository.

Section 12. Miscellaneous.

(a) So long as the dividend rate is based on the results of an Auction or Remarketing, a Holder (i) may sell, transfer or otherwise dispose of shares of Auction Preferred only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer or to a Person that has delivered a signed copy of a Purchaser's Letter to a Broker-Dealer, and in the case of all transfers other than pursuant to Auctions, such Existing Holder of the shares of Auction Preferred, its Broker-Dealer or its Participant advises the Auction Agent of such transfer, (ii) may transfer shares of Remarketing Preferred only pursuant to a tender of such shares to the Tender Agent or to a person that has delivered a signed copy of a Purchaser's Letter to a Remarketing Agent, and in the case of all transfers of shares of Remarketing Preferred other than pursuant to a tender of such shares, the holder of the shares so transferred advises a Remarketing Agent of such transfer and (iii) unless otherwise required by law, shall have its ownership of shares of Preferred Stock maintained in book entry form by the Securities Depository or, in the case of shares of Remarketing Preferred with a Dividend Period of less than 7 days, the Remarketing Depository.

(b) Each Remarketing Agent will be required to register on a list maintained pursuant to a Remarketing Agreement a transfer of shares of Remarketing Preferred for which it is the Remarketing Agent from a holder to another person only if such transfer is made to a person that has delivered a signed copy of a Purchaser's Letter to such Remarketing Agent and if (i) such transfer is pursuant to a Remarketing or (ii) such Remarketing Agent has been notified in writing (A) by such holder of such transfer or (B) by any person that purchased or sold such Remarketing Preferred in a Remarketing of the failure of such Remarketing Preferred to be delivered or paid for, as the case may be, in connection with such Remarketing. A Remarketing Agent is not required to register a transfer of Remarketing Preferred pursuant to clause (ii) above on or prior to the Business Day immediately preceding the first day of a subsequent Dividend Period for such Remarketing Preferred unless it receives the written notice required by such clause (ii) by 3:00 P.M., New York City time, on the second Business Day preceding the first day of such subsequent Dividend Period. Such Remarketing Agent will rescind a transfer registered on such list as a result of a Remarketing if the Remarketing Agent is notified in writing of the failure of shares of Remarketing Preferred to be delivered or paid for as required. Any transfer of shares of Remarketing Preferred made in violation of the terms of a Purchaser's Letter may affect the right of the Person acquiring such shares to participate in Remarketings.

(c) (i) If the Method of determining the Dividend Rate for some or all of the Series of Preferred Stock is the Auction Method, the Corporation or any Affiliate of the Corporation may not submit for its own account a Bid or Hold Order in an Auction. If the Corporation or any Affiliate holds shares of Auction Preferred for its own account, it must submit a Sell Order in the next auction with respect to such shares. Any Broker-Dealer that is an Affiliate of the Corporation may not submit for its own account Bid Orders or Hold Orders in Auctions. If such affiliated Broker-Dealer holds shares of Auction Preferred for its own account, it must submit a Sell Order in the next Auction with respect to such shares of Auction Preferred.

(c) (ii) The Corporation or any Affiliate of the Corporation may acquire, hold or dispose of shares of Remarketing Preferred. Subject to such limitations as the Corporation and the Remarketing Agent may agree, it and its Affiliates will purchase shares of Remarketing Preferred, if any, during Remarketings only after 3:00 P.M. on the Business Day immediately preceding the first day of each subsequent Dividend Period and only at Applicable Rates and for Dividend Periods established by the Remarketing Agents without regard to such offers by the Corporation or its Affiliates and will tender shares of Remarketing Preferred for Remarketing only upon at least 10

days' prior notice to the Remarketing Agents; provided, however, that if the then current Dividend Period is less than 10 days, the Corporation will give notice to the Remarketing Agent on the day such Dividend Period of less than 10 days commences. In the event that the Corporation or its Affiliates purchase shares of Remarketing Preferred for their respective accounts, all shares of Remarketing Preferred tendered by other holders, including any such Remarketing Preferred owned by a Remarketing Agent, will be remarketed before the Remarketing of any such Remarketing Preferred owned by the Corporation or its Affiliates. If any shares of Remarketing Preferred tendered for Remarketing are not sold, any shares of Remarketing Preferred tendered for Remarketing by the Corporation or an Affiliate of the Corporation, up to the number of such shares not so sold, will be deemed not to have been so tendered.

(d) The purchase price of each share of Preferred Stock which is sold either through the Auction Procedures or the Remarketing Procedures shall be $250,000.

(e) If a holder of Converted Auction Preferred fails to give irrevocable notice otherwise to the Remarketing Agent for such Remarketing Preferred (or, if so instructed by such Remarketing Agent, to the Tender Agent) by no later than 3:00 P.M., New York City time, on the Business Day immediately preceding the first day of the subsequent Dividend Period applicable thereto, or such other day as is specified in a notice delivered in the manner set forth in Section 9(b)(ii), such holder will be deemed to have tendered such Converted Auction Preferred for sale by Remarketing on such Business Day.

(f) An Auction will be held in respect of each Series of Converted Remarketing Preferred on the Initial Auction Date. If a holder of Converted Remarketing Preferred does not submit an Order in such Auction, such holder will be deemed to have submitted a Sell Order in such Auction.

Section 13. Exclusive Remedy.

In the event that dividends are not timely declared on the shares of Preferred Stock, the exclusive remedy of Holders against the Corporation shall be as set forth in this part of Article IV (B) and in no event shall Holders of such shares have a specifically enforceable right to the declaration of dividends.

Section 14. Additional Terms.

(a) The Board of Directors may interpret the provisions of this part of Article IV (B) to resolve any inconsistency or ambiguity or remedy any formal defect.

(b) The headings of the various subdivisions of this part of Article IV (B) are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

(c) Except as otherwise provided by the General Corporation Law of the State of Delaware or by any resolution heretofore or hereafter adopted by the Board of Directors fixing the relative powers, preferences and rights and the qualifications, limitations or restrictions of any additional series of Preferred Stock, the entire voting power of the shares of the Company for the election of directors and for all other purposes, as well as all other rights appertaining to shares of the Company, shall be vested exclusively in the Common Stock. Each share of Common Stock shall have one vote upon all matters to be voted on by the holders of the Common Stock, and shall be entitled to participate equally in all dividends payable with respect to the Common Stock and to share ratably, subject to the rights and preferences of any Preferred Stock, in all assets of the Company in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, or upon any distribution of the assets of the Company.

(d) The Company shall not, without either the prior approval of a majority of the total number of shares then issued and outstanding and entitled to vote or the receipt by the Company of a favorable opinion issued by a nationally recognized investment banking firm designated by the Committee of Equity Security Holders of Texaco Inc. appointed in the Company's jointly administered Chapter 11 case in the United States Bankruptcy Court for the Southern District of New York or its last chairman (or his designee) to the effect that the proposed issuance is fair from a finance point of view to the stockholders of the Company issue to its stockholders generally (i) any warrant or other right to purchase any security of the Company, any successor thereto or any other person or entity or (ii) any security of the Company containing any such right to purchase, which warrant, right or security (a) is exercisable, exchangeable or convertible, based or conditioned in whole or in part on (I) a change of control of the Company or (II) the owning or holding of any number or percentage of outstanding shares or voting power or any offer to acquire any number of shares or percentage of voting power by any entity, individual or group of entities and/or individuals or (b) discriminates among holders of the same class of securities (or the class of securities for which such warrant or right is exercisable or exchangeable) of the Company or any successor thereto.

V.

The Company is to have perpetual existence.

VI.

The private property of the stockholders is not to be subject to the payment of corporate debts to any extent whatever.

VII.

No holder of stock of the Company shall have any preferential right of subscription to any share of any class of stock of the Company issued or sold, or to any obligations convertible into stock of the Company, or any right of subscription to any thereof other than such, if any, as the Board of Directors in its discretion may determine, and at such prices as the Board of Directors may fix.

VIII.

The Company may use its surplus earnings or accumulated profits in the purchase or acquisition of its own capital stock from time to time as its Board of Directors shall determine, and such capital stock so purchased may, if the directors so determine, be held in the treasury of the Company as treasury stock, to be thereafter disposed of in such manner as the directors shall deem proper.

IX.

(A) Number, Election and Terms of Directors. Except as otherwise fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any class or series of stock having preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of the directors of the Company shall be fixed from time to time by or pursuant to the by-laws. The directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the by-laws, one class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1985, another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1986, and another class to be originally elected for a term expiring at the annual meeting of stockholders to be held in 1987, with each class to hold office until its successor is elected and qualified. At each annual meeting of the stockholders of the Company, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

(B) Stockholder Nomination of Director Candidates. Advance notice of stockholder nominations for the election of directors shall be given in the manner provided in the by-laws.

(C) Newly Created Directorships and Vacancies. Except as otherwise provided for or fixed by or pursuant to the provisions of Article IV hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation or disqualification, or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director so elected shall stand for election (for the balance of his term) at the next annual meeting of stockholders, unless his term expires at such annual meeting. Any vacancy on the Board of Directors resulting from removal by stockholder vote shall be filled only by the vote of a majority of the voting power of all shares of the Company entitled to vote generally in the election of directors, voting together as a single class.

(D) Removal. Subject to the rights of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director may be removed from office, with or without cause, only by the affirmative vote of the holders of 66 2/3% of the combined voting power of the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class.

(E) Amendment, Repeal, Etc. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 66 2/3% of the voting power of all shares of the Company entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with or repeal this Article IX.

X.

In furtherance, and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

(A) to fix in the by-laws from time to time the number of directors of the Company, none of whom need be stockholders;

(B) to fix the amount to be reserved as working capital over and above its capital stock paid in;

(C) to borrow money and to make and issue notes, bonds, debentures, obligations and evidence of indebtedness of all kinds, with or without the privilege of conversion into stock of the Company; and also to authorize and cause to be executed mortgages and liens upon the real and personal property of the Company and conveyances of its real estate;

(D) from time to time to determine whether and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of the Company (other than the stock ledger), or any of them, shall be open to inspection of stockholders; and no stockholder shall have any right of inspecting any account book or document of the Company

except as conferred by statute, unless authorized by a resolution of the stockholders or directors; and

(E) if the by-laws so provide, to designate by resolution three or more of its number to constitute an executive committee, which committee shall, for the time being, have and exercise such of the powers of the Board of Directors in the management of the business and affairs of the Company, and have power to authorize the seal of the Company to be affixed to all papers which may require it.

The Company may in its by-laws confer powers upon its directors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon them by statute.

Both stockholders and directors shall have power, if the by-laws so provide, to hold their meeting and to have one or more offices within or without the State of Delaware, and to keep the books of the Company (subject to the provisions of applicable laws), outside of the State of Delaware at such places as may be from time to time designated by the Board of Directors.

XI.

Any action required or permitted to be taken by the stockholders of the Company must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of stockholders of the Company may be called only by the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 66 2/3% of the voting power of all shares of the Company entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with or repeal this Article XI.

XII.

The Board of Directors shall have power to make, alter, amend and repeal the by-laws (except so far as the by-laws adopted by the stockholders shall otherwise provide). Any by-laws made by the directors under the powers conferred hereby may be altered, amended or repealed by the directors or by the stockholders. Notwithstanding the foregoing and anything contained in this Certificate of Incorporation to the contrary, Section 2 of Article I and Sections 1,2,3 and 4 of Article II of the by-laws shall not be altered, amended or repealed and no provision inconsistent therewith shall be adopted without the affirmative vote of the holders of at least 66 2/3% of the voting power of all the shares of the Company entitled to vote generally in the election of directors, voting together as a single class. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 66 2/3% of the voting power of all shares of the Company entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with or repeal this Article XII.

XIII.

(A) Vote Required for Certain Business Combinations.

(1) Higher Vote for Certain Business Combinations. In addition to any affirmative vote required by law or this Certificate of Incorporation, and except as otherwise expressly provided in Section B of this Article XIII:

(a) any merger or consolidation of the Company or any Subsidiary (as hereinafter defined) with (i) any Interested Stockholder (as hereinafter defined) or (ii) any other Company (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Stockholder; or

(b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate of any Interested Stockholder of any assets of the Company or any Subsidiary having an aggregate Fair Market Value of $100 million or more; or

(c) the issuance or transfer by the Company or any Subsidiary (in one transaction or a series of transactions) of any securities of the Company or any Subsidiary to any Interested Stockholder or any Affiliate of any Interested Stockholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of $100 million or more or;

(d) the adoption of any plan or proposal for the liquidation or dissolution of the Company proposed by or on behalf of an Interested Stockholder or any Affiliate of any Interested Stockholder; or

(e) any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries or any other transaction (whether or

not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Company or any Subsidiary which is directly or indirectly owned by any Interested Stockholder or any Affiliate of any Interested Stockholder; shall require the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of capital stock of the Company entitled to vote generally in the election of directors (the "Voting Stock"), voting together as a single class (it being understood that for purposes of this Article XIII, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article IV of this Certificate of Incorporation). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

(2) Definition of "Business Combination." The term "Business Combination" as used in this Article XIII shall mean any transaction which is referred to in any one or more of clauses (a) through (e) of paragraph (1) of this Section (A).

(B) When Higher Vote is Not Required. The provisions of Section A of this Article XIII shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law and any other provision of this Certificate of Incorporation, if all of the conditions specified in either of the following paragraphs (1) and (2) are met:

(1) Approval by Disinterested Directors. The Business Combination shall have been approved by a majority of the Disinterested Directors (as hereinafter defined).

(2) Price and Procedure Requirements. All of the following conditions shall have been met:

(a) The aggregate amount of the cash and the Fair Market Value (as hereinafter defined) as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the higher of the following:

(i) (if applicable) the highest per share price (including any brokeragecommissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of Common Stock acquired by it (a) within the two-year period immediately prior to the first publication announcement of the proposal of the Business Combination (the "Announcement Date") or (b) in the transaction in which it became an Interested Stockholder, whichever is higher; and

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Stockholder became an Interested Stockholder (such latter date is referred to in this Article XIII as the "Determination Date"), whichever is higher.

(b) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of any other class of outstanding Voting Stock shall be at least equal to the highest of the following (it being intended that the requirements of this paragraph 2(b) shall be required to be met with respect to every class of outstanding Voting Stock, whether or not the Interested Stockholder has previously acquired any shares of a particular class of Voting Stock):

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of such class of Voting Stock acquired by it (a) within the two-year period immediately prior to the Announcement Date or (b) in the transaction in which it became an Interested Stockholder, whichever is higher;

(ii) (if applicable) the highest preferential amount per share to which the holders of shares of such class of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company; and

(iii) the Fair Market Value per share of such class of Voting Stock on the Announce- ment Date or on the Determination Date, whichever is higher.

(c) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the

Interested Stockholder has previously paid for shares of such class of Voting Stock. If the Interested Stockholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it. The price determined in accordance with paragraph 2(a) and 2(b) of this Section B shall be subject to appropriate adjustment in the event of any stock dividend, stock split, combination of shares or similar event.

(d) After such Interested Stockholder has become an Interested Stockholder and prior to the consummation of such Business Combination: (i) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on the outstanding Preferred Stock; (ii) there shall have been (A) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors, and (B) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock unless the failure so to increase such annual rate is approved by a majority of the Disinterested Directors; and (iii) such Interested Stockholder shall have not become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Interested Stockholder becoming an Interested Stockholder.

(e) After such Interested Stockholder has become an Interested Stockholder, such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Company, whether in anticipation of or in connection with such Business Combination or otherwise.

(f) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public stockholders of the Company at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

(C) Vote Required for Certain Stock Repurchases. In addition to any other requirement of this Certificate of Incorporation, the affirmative vote of the holders of at least 50% of the Voting Stock (other than Voting Stock beneficially owned by a Selling Stockholder (as hereinafter defined)), shall be required before the Company purchases any outstanding shares of Common Stock at a price above the Market Price (as hereinafter defined) from a person actually known by the Company to be a Selling Stockholder, unless the purchase is made by the Company (i) on the same terms and as a result of an offer made generally to all holders of Common Stock or (ii) pursuant to statutory appraisal right.

(D) Certain Definitions. For the purposes of this Article XIII:

(1) A "person" shall mean any individual, firm, corporation or other entity.

(2) "Interested Stockholder" shall mean any person (other than the Company or any Subsidiary) who or which:

(a) is the beneficial owner, directly or indirectly, of more than 20% of the voting power of the outstanding Voting Stock; or

(b) is an Affiliate of the Company and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 20% or more of the voting power of the then outstanding Voting Stock; or

(c) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(3) A person shall be a "beneficial owner" of any Voting

Stock:

(a) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns directly or indirectly; or

(b) which such person or any of its Affiliates or Associates has (i) the right to acquire (whether such right is exe rcisable immediately or only after the passage of time), pursuant to any agreem ent, arrangement or understanding or upon the exercise of conversion rights , exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement or understanding; or

(c) which are beneficially owned, direct ly or indirectly, by any other person with which such person or any of its A ffiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(4) For the purposes of determining whether a person is an Interested Stockholder pursuant to paragraph 2 of this Section C, the num ber of shares of Voting Stock deemed to be outstanding shall include shares d eemed owned through application of paragraph 3 of this Section C but shall not include any other shares which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warr ants or options, or otherwise.

(5) "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on Ma rch 1, 1984.

(6) "Subsidiary" means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Com pany; provided, however, that for the purposes of the definition of Interested Stockholder set forth in paragraph 2 of this Section C, the term "Subsidi ary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Company.

(7) "Disinterested Director" means any member of the Board of Directors who is unaffiliated with the Interested Stockholder and was a m ember of the Board of Directors prior to the time that the Interested Stockhold er became an Interested Stockholder, and any successor of a Disinterested Director who is unaffiliated with the Interested Stockholder and is recommended to succeed a Disinterested Director by a majority of Disinter ested Directors then on the Board of Directors.

(8) "Fair Market Value" means: (a) in the case of the stoc k, the highest closing sale price during the 30-day period immediately prece ding the date in question of a share of such stock on the Composite Tape for N ew York Stock Exchange-Listed Stocks, or, if such stock is not listed on suc h Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by the Board of Directors in good faith; and (b) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Board of Directors in good faith.

(9) "Selling Stockholder" means any person who or which is the beneficial owner of in the aggregate more than 1% of the outstanding shares of Common Stock and who or which has purchased or agreed to purchase any of such shares within the most recent two-year period and who sells or proposes to sell Common Stock in a transaction requiring the affirmative vote provided for in Section C of this Article XIII.

(10) "Market Price" means the highest sale price on or during the period of five trading days immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or if such stock is not quoted on the Composite Tape on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of stock on or during the period of five trading days immediately preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors.

(E) Powers of the Board of Directors. A majority of the directors shall have the power and duty to determine for the purposes of this Article XIII, on the basis of information known to them after

reasonable inquiry, (1) whether a person is an Interested Stockholder, (2) the number of shares of Voting Stock beneficially owned by any person, (3) whether a person is an Affiliate or Associate of another, (4) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Company or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of $100 million or more. A majority of the directors shall have the further power to interpret all of the terms and provisions of this Article XIII.

(F) No Effect on Fiduciary Obligations of Interested Stockholders. Nothing contained in this Article XIII shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

(G) Amendment, Repeal, etc. Notwithstanding any other provisions of this Certificate of Incorporation or the by-laws (and notwithstanding the fact that a lesser percentage may be specified by law, this Certificate of Incorporation or the by-laws) the affirmative vote of the holders of 80% or more of the outstanding Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with this Article XIII.

XIV.

A director of the Company shall not be liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as the same exists or may hereafter be amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Company shall not adversely affect any right or protection of a director of the Company existing at the time of such repeal or modification.

XV.

The Company reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by this Certificate of Incorporation or statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

I, R.E. Koch, Assistant Secretary of Texaco Inc., a Delaware corporation, do hereby certify that the foregoing includes all of the provisions of the Restated Certificate of Incorporation of Texaco Inc. filed with the Delaware Secretary of State on April 27, 1990, as amended on December 22, 1992, November 9, 1994 and September 10, 1997.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company this twenty-ninth day of September, 1997.

Assistant Secretary

EXHIBIT 5

[Letterhead of Davis Polk & Wardwell]

September 29, 1997

Texaco Inc.
2000 Westchester Avenue
White Plains, New York 10650

Ladies and Gentlemen:

We have acted as counsel to Texaco Inc. ("Texaco") in connection with Texaco's Registration Statement on Form S-4 (the "Registration Statement") filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"), relating to the registration by Texaco of shares (the "Shares") of common stock, par value $3.125 per share, of Texaco to be issued in connection with the merger of a wholly-owned subsidiary of Texaco with and into Monterey Resources, Inc. ("Monterey") pursuant to the terms of the Agreement and Plan of Merger dated as of August 17, 1997, between Texaco and Monterey (the "Merger Agreement").

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates and other instruments, and have conducted such other investigations of fact and law, as we have deemed necessary or advisable for the purposes of this opinion.

In rendering this opinion we have assumed that prior to the issuance of any of the Shares (i) the Registration Statement, as then amended, will have become effective under the Securities Act, (ii) the stockholders of Monterey will have approved and adopted the Merger Agreement and (iii) the transactions contemplated by the Merger Agreement will have been consummated.

On the basis of the foregoing, we are of the opinion that the Shares have been duly authorized and the Shares, when issued and delivered in accordance with the terms and conditions of the Merger Agreement, will be validly issued, fully paid and non-assessable.

We are members of the Bar of the State of New York and the foregoing opinion is limited to the laws of the State of New York, the federal laws of the United States of America and the General Corporation Law of the State of Delaware.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. In addition, we consent to the reference to us under the caption "Legal Matters" in the Proxy Statement/Prospectus constituting a part of the Registration Statement.

Very truly yours,

/s/ Davis Polk & Wardwell
Davis Polk & Wardwell

Exhibit 8(a)

[Letterhead of Davis Polk & Wardwell]

September 29, 1997

Re: Registration Statement on Form S-4

Texaco Inc.
200 Westchester Avenue
White Plains, New York 10650

Ladies and Gentlemen:

We have acted as counsel for Texaco Inc., ("Texaco") in connection with the proposed merger of Texaco Sunrise Inc., a wholly-owned subsidiary of Texaco, with and into Monterey Resources, Inc., ("Monterey") pursuant to an Agreement and Plan of Merger dated as of August 17, 1997 between Monterey and Texaco. In connection therewith, we have participated in the preparation of the discussion set forth under the caption "The Merger --Certain U.S. Federal Income Tax Consequences" (the "Discussion") in the Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4 filed by Texaco with the Securities and Exchange Commission. Capitalized terms used and not otherwise defined herein are used as defined in the Proxy Statement/Prospectus.

The Discussion, subject to the qualifications stated therein, constitutes our opinion as to the material United States federal income tax consequences for Monterey Common Stockholders of the Merger.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of our name in the Proxy Statement/Prospectus under the captions "The Merger --Certain U.S. Federal Income Tax Consequences," "The Merger Agreement -- Conditions to the Merger" and "Legal Matters." The issuance of such consent does not concede that we are an "expert" for the purposes of the Securities Act of 1933.

Very truly yours,

/s/ Davis Polk & Wardwell
Davis Polk & Wardwell

Exhibit 8(b)

[Letterhead of Andrews & Kurth L.L.P.]

September 29, 1997

Monterey Resources, Inc.
5201 Truxtun Avenue
Bakersfield, California 93309

Re: Registration Statement on Form S-4

Ladies and Gentlemen:

We have acted as counsel for Monterey Resources, Inc. ("Monterey") in connection with the proposed merger of Texaco Sunrise Inc., a wholly-owned subsidiary of Texaco Inc. ("Texaco"), with and into Monterey pursuant to an Agreement and Plan of Merger dated as of August 17, 1997 between Monterey and Texaco. In connection therewith, we have participated in the preparation of the discussion set forth under the caption "The Merger --Certain U.S. Federal Income Tax Consequences" (the "Discussion") in the Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4 filed by Texaco with the Securities and Exchange Commission. Capitalized terms used and not otherwise defined herein are used as defined in the Proxy Statement/Prospectus.

The Discussion, subject to the qualifications stated therein, constitutes our opinion as to the material United States federal income tax consequences for Monterey Common Stockholders of the Merger.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of our name in the Proxy Statement/Prospectus under the captions "The Merger--Background of the Merger," "The Merger--Certain U.S. Federal Income Tax Consequences," "The Merger Agreement--Certain Covenants," "The Merger Agreement--Conditions to the Merger" and "Legal Matters." The issuance of such consent does not concede that we are an "expert" for the purposes of the Securities Act of 1933.

Very truly yours,

/s/ Andrews & Kurth L.L.P.
Andrews & Kurth L.L.P.

EXHIBIT 23(a)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Registration Statement on Form S-4 of our report dated February 27, 1997 incorporated by reference in Texaco Inc.'s Form 10-K for the year ended December 31, 1996 and to all references to our Firm included in this Registration Statement.

/s/ Arthur Andersen LLP
ARTHUR ANDERSEN LLP

New York, New York
September 29, 1997

EXHIBIT 23(b)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Proxy Statement/Prospectus constituting part of this Registration Statement on Form S-4 of Texaco Inc. of our report dated February 20, 1997 relating to the financial statements of Monterey Resources, Inc., which appears in such Proxy Statement/Prospectus. We also consent to the reference to us under the heading "Experts" in such Proxy Statement/Prospectus.

/s/ PRICE WATERHOUSE LLP

PRICE WATERHOUSE LLP

Houston, Texas
September 29, 1997

EXHIBIT 23(c)

CONSENT OF COOPERS & LYBRAND, L.L.P.
INDEPENDENT ACCOUNTANTS

We hereby consent to the inclusion in the Proxy Statement/Prospectus constituting part of this Registration Statement on Form S-4 of our report dated March 7, 1997, on our audits of the consolidated financial statements of McFarland Energy, Inc. We also consent to the reference to our firm under the caption "Experts".

/s/ Coopers & Lybrand, L.L.P.
COOPERS & LYBRAND, L.L.P.

Newport Beach, California
September 26, 1997

EXHIBIT 23(f)

[Letterhead of Goldman, Sachs & Co.]

PERSONAL AND CONFIDENTIAL

September 29, 1997

Board of Directors
Monterey Resources, Inc.
5201 Truxtun Avenue, Suite 100
Bakersfield, California 93309

Re: Registration Statement of Texaco Inc. ("Texaco") relating to the common stock, par value $3.125 per share, of Texaco being registered in connection with the Agreement and Plan of Merger (the "Agreement") dated as of August 17, 1997 among Texaco and Monterey Resources, Inc.

Gentlemen:

Reference is made to our opinion letter dated August 17, 1997 with respect to the fairness to the holders of the outstanding shares of Common Stock, par value $0.01 per share (the "Shares"), of Monterey Resources, Inc. (the "Company") of the Stock Consideration (as defined in such opinion) to be received for each Share pursuant to the Agreement.

The foregoing opinion letter is provided for the information and assistance of the Board of Directors of the Company in connection with its consideration of the transaction contemplated therein and is not to be used, circulated, quoted or otherwise referred to for any other purpose, nor is it to be filed with, included in or referred to in whole or in part in any registration statement, proxy statement or any other document, except in accordance with our prior written consent. We understand that the Company has determined to include our opinion in the above-referenced Registration Statement.

In that regard, we hereby consent to the reference to the opinion of our Firm under the captions "Summary--Fairness Opinion of Financial Advisor" and "The Merger--Opinion of Monterey's Financial Advisor" and to the inclusion of the foregoing opinion in the Proxy Statement/Prospectus included in the above-mentioned Registration Statement. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933 or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

/s/ Goldman, Sachs & Co.
- ------------------------
Goldman, Sachs & Co.

EXHIBIT 23(g)

[LETTERHEAD OF RYDER SCOTT COMPANY PETROLEUM ENGINEERS]

CONSENT OF RYDER SCOTT COMPANY
PETROLEUM ENGINEERS

We hereby consent to the use in the Proxy Statement/Prospectus constituting part of this Registration Statement on Form S-4 of our report to the Board of Directors of Monterey Resources, Inc., dated as of December 31, 1996. We also consent to the references to us under the captions "Business of Monterey--General", "Business of Monterey--Reserves" and "Business of Monterey--Significant Producing Properties" in such Proxy Statement/Prospectus.

/s/ Ryder Scott Company
Petroleum Engineers
RYDER SCOTT COMPANY
PETROLEUM ENGINEERS

Houston, Texas
September 29, 1997

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 22nd day of January, 1997.

PETER I. BIJUR

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements,

registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 13th day of January, 1997.

PATRICK J. LYNCH

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, an officer of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 31st day of January, 1997.

ROBERT C. OELKERS

Vice President and Comptroller
(Principal Accounting Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the

undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 28th day of February, 1997.

JOHN BRADEMAS

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1995, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as her own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set her name as of the 29th day of July, 1997.

MARY K. BUSH

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 29th day of January, 1997.

WILLARD C. BUTCHER

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 15th day of January, 1997.

EDMUND M. CARPENTER

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 17th day of January, 1997.

MICHAEL C. HAWLEY

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 29th day of January, 1997.

FRANKLYN G. JENIFER

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 31st day of January, 1997.

THOMAS S. MURPHY

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 14th day of January, 1997.

CHARLES H. PRICE, II

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

Without limiting the generality of the foregoing grant of authority, such attorneys-in-fact and agents, or either of them, are hereby granted full power and authority, on behalf of and in the name, place and stead of the undersigned, to execute and deliver all such Registration Statements, registrations, qualifications, or notifications, the Company's Form 10-K, any and all amendments thereto, statements of changes, and any and all other documents in connection with the foregoing, and take such other and further action as such attorneys-in-fact and agents, or either of them, deem necessary or appropriate. The powers and authorities granted herein to such attorneys-in-fact and agents, and either of them, also include the full right, power and authority to effect necessary or appropriate substitutions or revocations. The undersigned hereby ratifies, confirms, and adopts, as his own act and deed, all action lawfully taken pursuant to the powers and authorities herein granted by such attorneys-in-fact and agents, or either of them, or by their respective substitutes. This Power of Attorney expires by its terms and shall be of no further force and effect on March 31, 1998.

IN WITNESS WHEREOF, the undersigned has hereunto set her name as of the 15th day of January, 1997.

ROBIN B. SMITH

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 30th day of January, 1997.

WILLIAM C. STEERE, JR.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 4th day of February, 1997.

THOMAS A. VANDERSLICE

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a director of TEXACO INC., a Delaware corporation (the "Company"), hereby makes, designates, constitutes and appoints CARL B. DAVIDSON and ROBERT E. KOCH, and either of them (with full power to act without the other), as the undersigned's true and lawful attorneys-in-fact and agents, with full power and authority to act in any and all capacities for and in the name, place and stead of the undersigned in connection with the filing of: (i) any and all registration statements and all amendments and post-effective amendments thereto (collectively, "Registration Statements") under the Securities Act of 1933, as amended, with the Securities and Exchange Commission, and any and all registrations, qualifications or notifications under the applicable securities laws of any and all states and other jurisdictions, with respect to the securities of the Company of whatever class, including without limitation thereon the Company's Common Stock, par value $6.25 per share, and preferred stock, par value $1.00 per share, however offered, sold, issued, distributed, placed or resold by the Company, by any of its subsidiary companies, or by any other person or entity, that may be required to effect: (a) any such filing, (b) any primary or secondary offering, sale, distribution, exchange, or conversion of the Company's securities, (c) any acquisition, merger, reorganization or consolidation involving the issuance of the Company's securities, (d) any stock option, restricted stock grant, incentive, investment, thrift, profit sharing, or other employee benefit plan relating to the Company's securities, or (e) any dividend reinvestment or stock purchase plan relating to the Company's securities; (ii) the Company's Annual Report to the Securities and Exchange Commission for the year ended December 31, 1996, on Form 10-K, and any and all amendments thereto on Form 8 or otherwise, under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and (iii) Statements of Changes of Beneficial Ownership of Securities on Form 4 or Form 5 (or such other forms as may be designated from time to time for such purposes), pursuant to Section 16(a) of the Exchange Act.

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IN WITNESS WHEREOF, the undersigned has hereunto set his name as of the 30th day of January, 1997.

WILLIAM WRIGLEY

EXHIBIT 99

PROXY

Monterey Resources, Inc.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FOR THE SPECIAL MEETING OF STOCKHOLDERS TO BE HELD NOVEMBER 4, 1997

The undersigned hereby appoints R. Graham Whaling, Craig A. Huff and Robert J. Wasielewski, and each of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and vote, as designated on the reverse side, all of the shares of the common stock of Monterey Resources, Inc. held of record by the undersigned on September 26, 1997 at the Special Meeting of Stockholders to be held on Tuesday, November 4, 1997, at 10:00 a.m., local time, at The Doubletree Inn, 3100 Camino Del Rio Court, Bakersfield, California, and any adjournment(s) or postponement(s) thereof.

Shares represented by this proxy will be voted as directed by the undersigned stockholder. If no such directions are indicated, the proxies will have authority to vote FOR each of the items described below.

(To be Dated and Signed On Reverse Side)

Please mark
[X] your votes as in this example

2275

	FOR	AGAINST	ABSTAIN
1. To approve and adopt the Agreement and Plan of Merger, dated as of August 17, 1997, relating to the merger of a recently formed wholly owned subsidiary of Texaco Inc. with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of Texaco Inc., and with each outstanding share of the Company's common stock, par value $0.01 per share, being converted into the right to receive between 0.3471 and 0.4242 shares of common stock, par value $3.125 per share, of Texaco Inc., depending on the average closing price of Texaco Inc. common stock during the 30 consecutive trading day period ending on and including the fifth trading day prior to the effective time of the merger.	[ ]	[ ]	[ ]

2. To act upon such other business as may properly come before the Special Meeting or any adjournments thereof.

Only holders of record of shares of Monterey common stock at the close of business on September 26, 1997 are entitled to vote at the Special Meeting.

It is important that your shares be represented at the Special Meeting regardless of whether you plan to attend. THEREFORE, PLEASE MARK, DATE AND SIGN THIS PROXY AND RETURN IT IN THE ACCOMPANYING POSTPAID ENVELOPE AS PROMPTLY AS POSSIBLE. If you are present at the Special Meeting, and wish to do so, you may revoke this Proxy and vote in person.

SIGNATURE(S) _____ DATE _____

NOTE: Please execute this Proxy as your name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title or capacity as such. If a corporation, please sign in full corporate name by the president or other authorized officer. If a partnership, please sign in partnership name by authorized person.